



**CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE-MONTHS ENDED
September 30, 2023 and 2022**

(Unaudited)

HIGH ARCTIC ENERGY SERVICES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) (thousands of Canadian Dollars)	As at September 30, 2023	As at December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	46,801	19,559
Accounts receivable (Note 3)	20,041	11,092
Asset sale receivable	-	28,000
Inventories	9,082	9,099
Prepaid expenses and other assets	548	1,046
Income tax receivable	711	482
	77,183	69,278
Non-current assets		
Property and equipment (Note 4)	25,522	52,962
Equity Investments (Note 6)	8,190	7,739
Note receivable (Note 7)	2,859	2,604
Right of use assets (Note 8(a))	1,812	1,374
Total assets	115,566	133,957
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	12,068	8,671
Current portion of long-term debt (Notes 9)	177	186
Current portion of lease liabilities (Note 8(b))	825	490
Dividend payable	243	243
Income tax payable	418	227
	13,731	9,817
Non-current liabilities		
Long-term debt (Notes 9)	3,394	4,028
Lease liabilities (Note 8(b))	1,139	992
Deferred tax liabilities	-	3,889
Total liabilities	18,264	18,726
Shareholders' Equity		
Share capital (Note 10(a))	169,490	169,554
Contributed surplus	14,992	14,685
Accumulated and other comprehensive income	27,756	27,853
Deficit	(114,936)	(96,861)
	97,302	115,231
Total liabilities and shareholders' equity	115,566	133,957

The accompanying notes are an integral part of these condensed interim consolidated financial statements.
 Commitments and contingencies (Note 17)

Approved on behalf of the Board,

(Signed) "Doug Strong"
 Doug Strong
 Director

(Signed) "Michael Binnion"
 Michael Binnion
 Director

HIGH ARCTIC ENERGY SERVICES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(thousands of Canadian Dollars, except number of common shares)	Number of Common shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
Balance, December 31, 2021	48,733,145	169,697	13,818	23,421	(58,085)	148,851
Share-based compensation expense (Note 11)	-	-	533	-	-	533
Dividends	-	-	-	-	(1,462)	(1,462)
Other comprehensive gain – foreign currency translation gain	-	-	-	5,210	-	5,210
Net loss for the period	-	-	-	-	(27,480)	(27,480)
Balance, September 30, 2022	48,733,145	169,697	14,351	28,631	(87,027)	125,652
Balance, December 31, 2022	48,691,864	169,554	14,685	27,853	(96,861)	115,231
Share-based compensation expense (Note 11)	-	-	268	-	-	268
Purchase of common shares for cancellation (Note 10(a))	(18,296)	(64)	39	-	-	(25)
Dividends	-	-	-	-	(2,190)	(2,190)
Other comprehensive loss – foreign currency translation loss	-	-	-	(97)	-	(97)
Net loss for the period	-	-	-	-	(15,885)	(15,885)
Balance, September 30, 2023	48,673,568	169,490	14,992	27,756	(114,936)	97,302

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

HIGH ARCTIC ENERGY SERVICES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2023	2022	2023	2022
Cash flows from operating activities:				
Net loss from continuing operations	(15,039)	(4,368)	(15,580)	(26,895)
Adjustments for:				
Depreciation and amortization expenses (Note 4, 8(a))	2,778	2,998	8,661	14,260
Deferred income tax expense (recovery)	(3,865)	(124)	(3,892)	7,116
Unrealized foreign exchange loss (gain)	(159)	131	72	182
Asset impairment expense (Note 4)	20,500	879	20,500	9,558
Share-based compensation expense (Note 11)	116	182	268	533
Non-cash finance expense	(88)	6	(384)	183
Income from equity investments	(508)	(296)	(451)	(424)
Gain on sale of nitrogen business (Note 5)	(615)	-	(615)	-
Gain (loss) on sale of property and equipment	34	(28)	(109)	(164)
Funds from (used in) operating activities from continuing operations	3,154	(620)	8,470	4,349
Change in non-cash working capital (Note 14)	(1,272)	1,591	(5,079)	3,145
Cash from operating activities from continuing operations	1,882	971	3,391	7,494
Cash used in operating activities from discontinued operations (Note 5)	(106)	(29)	(178)	(132)
Net cash from operating activities	1,776	942	3,213	7,362
Cash flows from investing activities:				
Property and equipment expenditures (Note 4)	(702)	(636)	(1,829)	(3,940)
Proceeds from asset sales, net of costs	1,350	10,250	29,451	11,361
Change in non-cash working capital (Note 14)	498	(924)	383	(676)
Cash from investing activities from continuing operations	1,146	8,690	28,005	6,745
Cash from (used in) investing activities from discontinued operations (Note 5)	-	(20)	29	(32)
Net cash from investing activities	1,146	8,670	28,034	6,713
Cash flows from financing activities:				
Purchase of common shares for cancellation	-	-	(25)	-
Repayment of long-term debt (Note 9)	(544)	(80)	(643)	(215)
Dividend payments	(730)	(731)	(2,190)	(1,218)
Lease obligation payments (Note 8(b))	(266)	(94)	(1,151)	(1,025)
Change in non-cash working capital (Note 14)	-	-	-	244
Net cash used in financing activities	(1,540)	(905)	(4,009)	(2,214)
Effect of foreign exchange rate changes	-	(419)	4	(512)
Change in cash and cash equivalents	1,382	8,288	27,242	11,349
Total cash and cash equivalents, beginning of period	45,419	15,098	19,559	12,037
Total cash and cash equivalents, end of period	46,801	23,386	46,801	23,386

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

HIGH ARCTIC ENERGY SERVICES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(Stated in Thousands of Canadian Dollars)

1. Nature of Business

High Arctic Energy Services Inc. ("High Arctic" or the "Corporation") is incorporated under the laws of Alberta, Canada and is a publicly traded corporation listed on the Toronto Stock Exchange under the symbol "HWO". High Arctic is engaged in contract drilling, equipment rentals and other oilfield services to the oil and natural gas industry in Papua New Guinea ("PNG") and Canada. The Corporation's head office address is located at Suite 2350, 330 – 5th Ave SW Calgary, Canada T2P 0L4.

The interim financial statements are presented in Canadian Dollars and all values are rounded to the nearest thousand dollars (\$000), except where otherwise indicated.

As of September 30, 2023, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L., representing 45.0% of the outstanding common shares. In addition, High Arctic directors and officers collectively own 2,697,749 common shares, representing 5.5% of the outstanding common shares.

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

During 2022, High Arctic entered into an agreement with Team Snubbing Services Inc. ("Team Snubbing") to sell its snubbing assets (the "Snubbing Transaction"). Consideration received included an equity ownership investment (see Note 6) in Team Snubbing and a note receivable (see Note 7).

On May 11, 2023, the Corporation announced that the Board of Directors intends to recommend to shareholders a tax efficient return of capital to a maximum \$38.2 million relating to the Q3-2022 sale of High Arctic's Canadian well servicing assets, and a reorganization of the Corporation. After receipt of feedback from shareholders, regulators and other stakeholders and research into alternative structures that will meet both the goals of strategic business management and governance concerns of High Arctic's stakeholders, an alternative plan to return capital and reorganize is being analyzed and may be put forward for consideration and approval at a meeting of Shareholders once the process is complete.

On June 19, 2023, High Arctic entered into an agreement to sell its Canadian Nitrogen transportation, hauling and pumping services business (the "Nitrogen Transaction") for cash consideration of \$1,350. The transaction closed on July 31, 2023 (see Note 5).

2. Basis of Presentation

(a) Statement of compliance and approval

These unaudited condensed interim consolidated financial statements ("Interim Financial Statements") have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting. These Interim Financial Statements were authorized for issuance by the Board of Directors on November 15, 2023.

(b) Basis of preparation

Unless otherwise noted, the interim financial statements follow the same accounting policies and methods of computation as described in the amended and restated annual audited consolidated financial statements for the year ended December 31, 2022, that were refiled on November 7, 2023. Accordingly, these interim financial statements should be read in conjunction with the amended and restated annual audited consolidated financial statements.

(c) Judgments, estimates and assumptions

The interim financial statements were prepared using the same judgments, estimates and assumptions as described in the audited amended and restated annual consolidated financial statements for the year ended December 31, 2022.

(d) *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 what constitutes a CGU could have a significant impact on impairment losses and reversals.

The assessment of impairment or impairment reversal indicators is based on 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 the Canadian Rentals Operations, and PNG Operations as at September 30, 2023.

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.

(e) *Disposal of non-current assets*

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

The Corporation has accounted for Nitrogen Transaction as a discontinued operations in the Interim Financial Statements. On closing of the Nitrogen Transaction, the Corporation had disposed of all of its nitrogen transportation, hauling and pumping business which represented a major line of business for the Corporation. There were no retained liabilities directly associated with the sale of this business.

As at the date of these Interim Financial Statements, the Corporation has concluded that its intended reorganization that involves the spinout of its PNG business does not currently meet the definition of an asset held for sale or distribution. While the Board of Directors' intention is to continue to proceed with a reorganization, significant outstanding matters need to be resolved before the reorganization can be viewed as being highly probable. Outstanding matters that remain to be concluded, amongst others, are the exact structure of the reorganization, regulatory, legal, board and shareholder approval.

(f) *Re-presentation of comparatives*

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

3. Accounts Receivable

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

(thousands of Canadian Dollars)	As at	As at
	Sept 30, 2023	Dec 31, 2022
Less than 31 days	6,507	3,049
31 days to 60 days	7,482	2,636
61 days to 90 days	2,325	2,173
Greater than 90 days	3,770	3,279
Expected credit losses	(43)	(45)
	20,041	11,092

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

(thousands of Canadian Dollars)	As at Sept 30, 2023	As at Dec 31, 2022
Canadian dollars	1,194	2,064
US dollars ('USD')	18,847	9,028
(2023 – USD \$13,924, 2022 – USD \$6,666)		
	20,041	11,092

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

The details of this approach as at September 30, 2023 was as follows:

(thousands of Canadian Dollars)	Less than 31 days	31- 60 days	61 – 90 days	Over 90 days	Total
Investment grade receivables	5,595	7,202	2,191	3,208	18,196
Non-investment grade receivables	912	280	134	562	1,888
Total receivables	6,507	7,482	2,325	3,770	20,084
<i>ECL for investment grade (%)</i>	0.04	0.06	0.10	0.30	
<i>ECL for non-investment grade (%)</i>	0.25	0.75	5.00	10.00	
ECL provision – investment grade	(2)	(4)	(2)	(9)	(17)
ECL provision – non-investment grade	(1)	(1)	-	(24)	(26)
Total provision for ECL	(3)	(5)	(2)	(33)	(43)
Total receivables (net)	6,504	7,477	2,323	3,737	20,041

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

(thousands of Canadian Dollars)	Less than 31 days	31- 60 days	61 – 90 days	Over 90 days	Total
Investment grade receivables	1,743	2,428	2,109	3,026	9,306
Non-investment grade receivables	1,306	208	64	253	1,831
Total receivables	3,049	2,636	2,173	3,279	11,137
<i>ECL for investment grade (%)</i>	0.04	0.06	0.10	0.30	
<i>ECL for non-investment grade (%)</i>	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)
Total receivables (net)	3,046	2,633	2,168	3,245	11,092

4. Property and equipment

(thousands of Canadian Dollars)	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in progress	Total
<i>Cost</i>						
Balance, Dec 31, 2022	1,897	201,595	3,109	6,866	-	213,467
Additions	-	1,052	-	-	748	1,800
Disposals	(1,468)	(15,963)	-	-	-	(17,431)
Transfers	49	467	21	-	(537)	-
Impairment	-	(20,500)	-	-	-	(20,500)
Effect of foreign exchange	-	(286)	(1)	-	3	(284)
Balance, Sept 30, 2023	478	166,365	3,129	6,866	214	177,052
<i>Accumulated depreciation</i>						
Balance, Dec 31, 2022	(1,885)	(154,377)	(2,740)	(1,503)	-	(160,505)
Depreciation	(64)	(7,546)	(81)	(130)	-	(7,821)
Disposal	1,509	15,234	-	-	-	16,743
Effect of foreign exchange	-	52	1	-	-	53
Balance, Sept 30, 2023	(440)	(146,637)	(2,820)	(1,633)	-	(151,530)
Net book value, Dec 31, 2022	12	47,218	369	5,363	-	52,962
Net book value, Sept 30, 2023	38	19,728	309	5,233	214	25,522

Impairment of the PNG cash-generating unit – 2023

As at September 30, 2023, the Corporation noted indicators of potential impairment in its PNG Operations CGU. Indicators include the Corporation's primary customer planning to conclude drilling after completing its minimum well commitment on their drilling schedule under a long-term contract and the lack of outstanding customer contract tenders or open bid submissions for High Arctic's rigs 115 and 116. The Corporation then undertook an impairment analysis of the PNG Operations CGU and determined that its recoverable amount was below its estimated carrying value of USD 38,500. Based on the impairment analysis High Arctic recorded an impairment of USD 15,100 (\$20,500) at September 30, 2023.

The recoverable amount of the PNG Operations CGU was determined using a value in use calculation. Projected cash flows were performed up to and including the year 2027 and were based on management's current assessment of future combined drilling, rental and workover activity and are based on management's P50 forecast case (P50 being a case that can be exceeded with 50% probability i.e., the most probable case) using both external and internal sources, contracts currently in place as well as historical activity levels.

Cash flows used in the calculation were discounted using a discount rate specific to the PNG Operations CGU. The after-tax discount rate derived from the Corporation's weighted average cost of capital, adjusted for risk factors specific to the PNG Operations CGU and used in determining the recoverable amount was 25.2%.

In the second quarter of 2021, the Corporation re-aligned the aggregation of certain assets following the December 31, 2020 PNG Drilling CGU impairment test to include the hydraulic workover rig based in PNG. The CGU was then renamed as PNG Operations CGU. The reason for the change reflected the Corporation's re-determination of certain customer market considerations that had impacted the aggregation considerations for cash inflows.

Impairment - 2022

On July 17, 2022 High Arctic entered into the Well Servicing Transaction and Snubbing Transaction. In 2022, the Corporation recognized an impairment expense of \$9,558 relating to the Well Servicing and Snubbing CGU carrying value.

5. Assets held for sale and discontinued operations

As at Sept 30, 2023, there are no assets held-for-sale with respect to the Nitrogen Transaction. On closing of the sale transaction in July 2023, the Corporation received cash of \$1,350 and High Arctic recorded a gain of \$615 on the sale of nitrogen business which had a net carrying value of \$674. Costs included in the determination of the gain on the sale totaled \$61.

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

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30	
	2023	2022	2023	2022
Revenue	105	579	1,307	1,643
Expenses				
Oilfield services	(132)	(577)	(1,191)	(1,677)
General and administration	(79)	(29)	(292)	(97)
Depreciation	(18)	(151)	(129)	(451)
Loss on sale of property and equipment	-	-	-	(3)
Net loss from discontinued operations	(124)	(178)	(305)	(585)

Discontinued operations reported in the condensed interim consolidated statements of cash flows are as follows:

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30	
	2023	2022	2023	2022
Cash flow from (used in) operating activities	(106)	(29)	(178)	(132)
Cash flow from (used in) investing activities	-	(20)	29	(32)
Cash flow from (used in) financing activities	-	-	-	-

6. Equity investments

(thousands of Canadian Dollars)	As at Sept 30, 2023	As at Dec 31, 2022
Equity investment – Team Snubbing Services Inc.	8,040	7,589
Equity investment – Seh' Chene Well Services Limited Partnership	150	150
	8,190	7,739

- a) On July 27, 2022, as part of the consideration for the Snubbing Transaction, High Arctic received 420,000 common voting shares in Team Snubbing representing a 42% ownership in total outstanding common shares of Team Snubbing. The Corporation recognized the initial investment at \$7,738. The fair value of the share consideration is level 3 and was determined based on an independent third-party evaluation, utilizing a combination of valuation approaches including the discounted cash flow method, adjusted net asset approach, and market approach.

The Corporation noted the following financial information for Team Snubbing for three and nine months of 2023:

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30	
	2023	2022 ⁽¹⁾	2023	2022 ⁽¹⁾
Revenue	5,385	2,434	14,747	2,434
Net income after tax	1,189	655	1,057	655
Net income after tax – 42% share	508	275	451	275

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

7. Note Receivable

(thousands of Canadian Dollars)	As at Sept 30, 2023	As at Dec 31, 2022
Convertible promissory note	3,365	3,365
Less: Interest accretion	(506)	(761)
	2,859	2,604

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

8. Right of use assets and lease liabilities

(a) Right of use assets:

(thousands of Canadian Dollars)	As at Sept 30, 2023	As at Dec 31, 2022
Costs:		
Opening balance	1,560	7,782
Additions	1,542	1,669
Disposals	(611)	(7,240)
Reclassification – Property and equipment	-	(664)
Effect of foreign exchange rate changes	222	13
Closing balance	2,713	1,560

(thousands of Canadian Dollars)	As at Sept 30, 2023	As at Dec 31, 2022
Accumulated amortization:		
Opening balance	(186)	(2,514)
Additions	(840)	(750)
Disposals	281	2,688
Reclassification – Property and equipment	-	408
Effect of foreign exchange rate changes	(156)	(18)
Closing balance	(901)	(186)
Net closing balance	1,812	1,374

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

(b) Lease liabilities

(thousands of Canadian Dollars)	As at Sept 30, 2023	As at Dec 31, 2022
Opening balance	1,482	8,445
Lease additions	1,462	1,395
Lease disposals	(396)	(7,695)
Lease payments	(1,151)	(866)
Lease finance expense (Note 13(c))	183	197
Effect of foreign exchange rate changes	384	6
Closing balance	1,964	1,482
Current	825	490
Non-current	1,139	992

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

The undiscounted cash flows relating to the lease liabilities at September 30, 2023 are as follows:

(thousands of Canadian Dollars)	As at Sept 30, 2023	As at Dec 31, 2022
Less than one year	927	564
One year to five years	1,183	1,093
More than five years	-	-
Total undiscounted liabilities	2,110	1,657

9. Long term debt

(a) Mortgage financing:

(thousands of Canadian Dollars)	As at Sept 30, 2023	As at Dec 31, 2022
Current	177	186
Non-current	3,394	4,028
Total	3,571	4,214

The Corporation has mortgage financing secured by lands and buildings owned by High Arctic located within Alberta, Canada. The mortgage has a remaining term of 3.4 years with a fixed interest rate of 4.30% with payments occurring monthly.

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

10. Shareholders' equity

(a) Share capital - Fully paid ordinary shares

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. 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 of up to 750,000 common shares, or approximately 1.5 percent of the Corporation's outstanding shares, under a Normal Course Issuer Bid ("NCIB"). The NCIB is valid for one year, commencing on December 15, 2022, and terminating on December 14, 2023. Pursuant to the NCIB 18,296 shares have been purchased and cancelled during the first nine months of 2023 (Nine months ended September 30, 2022 – Nil)

(b) Per Share Amounts

(thousands of Canadian Dollars) (except number of common shares)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2023	2022	2023	2022
Continuing Operations				
Net loss	(15,039)	(4,368)	(15,580)	(26,895)
Basic - weighted average number of common shares	48,673,568	48,733,145	48,653,720	48,733,145
Basic net loss per share	(0.31)	(0.09)	(0.32)	(0.55)
Discontinued Operations				
Net loss	(124)	(178)	(305)	(585)
Basic net loss per share	(0.00)	(0.00)	(0.00)	(0.00)

There is no dilutive impact to the weighted average number of common shares outstanding as the effects of all stock options and units are anti-dilutive.

11. Share based compensation

The Corporation has four equity-based compensation plans under which up to 4,867,357 common shares (being 10% of all outstanding shares) may be issued as at September 30, 2023. The following table summarizes the Corporation's outstanding grants for each equity-based compensation plan:

(number of options)	As at Sept 30, 2023	As at Dec 31, 2022
Stock options	217,000	250,000
Performance share unit plan – restricted units	536,867	524,965
Performance share unit plan – performance units	275,229	407,945
Deferred share units	892,134	1,107,970
Balance, end of period	1,921,230	2,290,880
Common shares available for grants	4,867,357	4,869,186
Percentage used of total available	40%	47%
Remaining common shares available for grant	2,946,127	2,578,306

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

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2023	2022	2023	2022
Stock options	8	(15)	26	38
Performance share unit plan – restricted units	23	47	97	121
Performance share unit plan – performance units	34	64	111	168
Deferred share units	51	86	34	206
Total expense	116	182	268	533

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 September 30, 2023, a total of 217,000 stock options are outstanding and expire at various dates up to 2026, at exercise prices that range from \$1.30 to \$1.44 per share.

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

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

	Number of stock options	Weighted average exercise price (\$)
As at December 31, 2021	464,500	2.02
Granted	30,000	1.30
Expired	(75,000)	3.75
Forfeited / Cancelled	(169,500)	(2.02)
As at December 31, 2022	250,000	1.39
Forfeited / Cancelled	(33,000)	(1.44)
As at September 30, 2023	217,000	1.38

(Exercise price)	Outstanding number of options	Weighted average remaining life of outstanding options (years)	Weighted average exercise price of outstanding options (\$)	Exercisable number of options	Weighted average exercise price of options that are exercisable (\$)
\$1.30	40,500	3.95	1.30	13,500	1.30
\$1.37	100,000	3.21	1.37	34,000	1.37
\$1.44	76,500	3.21	1.44	30,600	1.44
As at September 30, 2023	217,000	3.35	1.38	78,100	1.40

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

Performance Share Unit Plan ("PSUP")

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

(number of options)	RSUs	PSUs	Total
As 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)
As at December 31, 2022	524,965	407,945	932,910
Dividends re-invested	11,902	19,051	30,953
Forfeited/Cancelled	-	(151,767)	(151,767)
As at September 30, 2023	536,867	275,229	812,096

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

Deferred Share Unit Plan (“DSU”)

Details regarding the DSU and related activity is as follows:

(number of options)	For the period ended Sept 30, 2023	For the period ended Dec 31, 2022
Outstanding, beginning of period	1,107,970	836,743
Granted	112,789	246,410
Forfeited / Cancelled	(364,677)	-
Dividends re-invested	36,052	24,817
Outstanding, end of period	892,134	1,107,970

The weighted average fair value of each DSU granted during 2023 was \$1.24 (year ended December 31, 2022 - \$1.50), equivalent to the previous 5-day weighted average share price at the time of grant. DSUs granted in 2023 pursuant to the Board Directors’ election to have quarterly compensation for services rendered settled in DSUs rather than cash were 112,789 DSUs (year ended December 31, 2022 – 156,410 DSUs).

12. Revenue

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

Three-month ended September 30, 2023 (thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Inter-segment elimination	Total
Service revenue:					
Canada	-	-	-	-	-
PNG	11,242	-	-	-	11,242
	11,242	-	-	-	11,242
Equipment rental revenue:					
Canada	-	1,014	-	-	1,014
PNG	2,698	2,860	-	-	5,558
	2,698	3,874	-	-	6,572
Total revenue	13,940	3,874	-	-	17,814

Three-month ended September 30, 2022 (thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Inter-segment elimination	Total
Service revenue:					
Canada ⁽¹⁾	-	-	4,409	-	4,409
PNG	4,855	-	-	-	4,855
	4,855	-	4,409	-	9,264
Equipment rental revenue:					
Canada ⁽²⁾	-	732	550	(215)	1,067
PNG	15	1,594	-	-	1,609
	15	2,326	550	(215)	2,676
Total revenue	4,870	2,326	4,959	(215)	11,940

⁽¹⁾ Service revenue associated with the Canadian Well Servicing and Snubbing assets sold in 2022 totaled \$4,409 during the quarter.

⁽²⁾ Equipment rental revenue associated with the assets sold in the Well Servicing Transaction included in Ancillary Services totaled \$328 during the quarter.

Nine-month ended September 30, 2023 (thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Inter-segment elimination	Total
Service revenue:					
Canada	-	-	-	-	-
PNG	27,757	-	-	-	27,757
	27,757	-	-	-	27,757
Equipment rental revenue:					
Canada	-	2,347	-	-	2,347
PNG	5,896	7,819	-	-	13,715
	5,896	10,166	-	-	16,062
Total revenue	33,653	10,166	-	-	43,819

Nine-month ended September 30, 2022 (thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Inter-segment elimination	Total
Service revenue:					
Canada ⁽¹⁾	-	-	33,858	-	33,858
PNG	20,382	-	-	-	20,382
	20,382	-	33,858	-	54,240
Equipment rental revenue:					
Canada ⁽²⁾	-	3,817	2,241	(1,601)	4,457
PNG	163	6,418	-	-	6,581
	163	10,235	2,241	(1,601)	11,038
Total revenue	20,545	10,235	36,099	(1,601)	65,278

⁽¹⁾ Service revenue associated with the Canadian Well Servicing and Snubbing assets sold in 2022 totaled \$33,858 during the period.

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

13. Supplementary expense disclosures – continuing operations

(a) Oilfield services expenses by nature:

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2023	2022	2023	2022
Personnel	3,812	6,676	11,367	32,195
Equipment operating and maintenance	1,157	1,447	1,883	11,336
Material and supplies	3,850	(14)	8,576	4,737
Drilling rig rental	2,699	40	5,905	239
Other	441	705	873	2,403
Total oilfield services expense	11,959	8,854	28,604	50,910

(b) General and administrative expenses by nature:

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2023	2022	2023	2022
Personnel	1,655	1,896	4,087	5,794
Professional, legal, and advisory fees	537	216	1,218	753
Information technology services	184	196	579	678
Corporate	160	71	448	309
Office and warehouse	72	61	227	133
Expense (recovery) of expected credit losses	9	11	(6)	(111)
Vehicle, supplies and other	36	37	106	126
Total general and administrative expense	2,653	2,488	6,659	7,682

(c) Interest and finance expenses:

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2023	2022	2023	2022
Interest on long term debt and standby fees	41	105	134	358
Finance expense – lease liabilities	52	5	183	180
Notes receivable accretion	(50)	842	(141)	842
Other expenses	4	13	41	37
Interest and finance expenses	47	965	217	1,417

14. Supplementary cash flow information – continuing operations

Changes in non-cash working capital balances:

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2023	2022	2023	2022
Source (use) of cash:				
Accounts receivable	(1,861)	5,575	(8,949)	8,613
Inventory, prepaid expense, and other assets	(471)	(3,560)	515	(4,549)
Accounts payable and accrued liabilities	1,178	(7,786)	3,397	(8,803)
Dividend payable	-	-	-	244
Income taxes payable	(133)	(52)	191	62
Income taxes receivable	15	575	(229)	1,006
Deferred revenue	-	4,287	-	4,287
Impact of foreign exchange on working capital	498	1,628	379	1,853
	(774)	667	(4,696)	2,713
Attributable to:				
Operating activities	(1,272)	1,591	(5,079)	3,145
Investing activities	498	(924)	383	(676)
Financing activities	-	-	-	244
	(774)	667	(4,696)	2,713

15. Financial Instruments and risk management

Financial instrument measurement and classification:

The Corporation's financial assets and liabilities consist of accounts receivable, note receivable, accounts payable and accrued liabilities, dividends payable, long-term debt and lease liabilities. The carrying values of accounts receivable, accounts payable and accrued liabilities and dividends payable approximate fair value due to the short-term nature of these instruments. The note receivable and long-term debt are recorded at amortized costs.

Financial and other risks:

The Corporation is exposed to financial risks arising from its financial assets and liabilities. This includes pandemic and/or endemic risk or the risk that operations and/or administration are forced to run at less than full capacity due to an absence or reduction of members of the workforce, either through forced closures by government both within countries and across national borders, by internally imposed rotational schedules and/or quarantine or illness of the workforce. Further, geopolitical risks are the potential risks that a business may face due to changes in global events, policies, national security threats, or regulations. These have an impact on a company's workforce and operations by limiting market access and increasing costs and could have significant impact on the Corporation. Also, cyber-security risks increase with the use of cloud hosted servers. Such restrictions could significantly impact the ability for the Corporation to operate, and therefore impact financial results.

Market risks:

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

a) *Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation currently has mortgage financing with a fixed interest rate of 4.30% (Note 9a). The Corporation is exposed to interest rate risk upon renewal or expiration of the initial term. The Corporation had no risk management contracts that would be affected by interest rates in place at September 30, 2023.

b) *Commodity price risk*

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

These prices are sensitive to not only the relationship between the Canadian and US dollar, but more importantly local, regional and world economic and geopolitical events. This includes implications from changing oil demand and supply, policy direction by OPEC, the ongoing effect of the conflict between Russia and Ukraine, climate change driven transitions to lower emission energy sources, the impact of future pandemics upon economic activity include the emergence of variants of COVID-19, the implications of changes to government and government policy and investment decisions in PNG to expand its LNG export capacity.

The Corporation had no risk management contracts that would be affected by commodity prices in place at September 30, 2023.

c) *Foreign currency risk*

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

Most of the Corporation's international revenue and expenses are effectively transacted in USD and the Corporation does not actively engage in foreign currency hedging. For the three and nine-months ended September 30, 2023, a \$0.10 change in the exchange rate of the Canadian dollar relative to the USD would have resulted in a change to the net loss amounting to \$189 and \$258 respectively (2022: \$193 and \$40 respectively).

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 September 30, 2023, USD \$782 (December 31, 2022 - USD \$564) was on deposit with a large international bank in PNG. The Bank of PNG ("BPNG") has provided approval for High Arctic to maintain a USD bank account in accordance with the BPNG currency regulations. Historically, the Corporation has received approval from BPNG for Drilling Services contracts with its key customers in PNG to be denominated and settled in USD. The Corporation will continue to seek Bank of PNG approval for our contracts to be settled in USD on a contract-by-contract basis, however, there is no assurance the Bank of PNG will grant these approvals.

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

Credit risk, customers, and economic dependence:

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

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

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

The net carrying amount of accounts receivable represents the estimated maximum credit exposure on the accounts receivable balance. The Corporation has a range of customers comprised of small independent, intermediate and large multinational oil and gas producers in North America and predominantly large global customers in PNG.

The Corporation provided services to two large multinational customers who individually accounted for greater than 10% of its consolidated revenues during the three-months ended September 30, 2023 with total sales of \$11,988 and \$2,317 respectively (2022: three customers with revenues of \$4,655, \$4,451, and \$1,556 respectively).

The Corporation provided services to two large multinational customers who individually accounted for greater than 10% of its consolidated revenues during the nine-months ended September 30, 2023 with total sales of \$21,606 and \$4,608 respectively (2022: six customers with revenues of \$12,138, \$9,468, \$8,617, \$8,367, \$7,050, and \$6,721 respectively).

As at September 30, 2023, two customers represented a total of \$13,897 or 69% of outstanding accounts receivable (December 31, 2022 – three customers represented a total of \$6,415 or 58% of outstanding accounts receivable).

Liquidity risk:

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

The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, working capital management, coordinating, and authorizing project expenditures, authorization of contractual agreements, and managing compliance to debt finance agreements.

Subsequent to the closing of the Well Servicing and Snubbing Transactions, its legacy revolving credit facility was terminated.

16. Segmented Information

The Corporation determines its operating segments based on internal information reviewed by the executive management team and Board of Directors to allocate resources and assess performance. The Corporation's reportable operating segments are strategic operating units that offer different products and services. The Corporation operates in Canada and PNG. For 2023 the Corporation has three operating segments as follows:

- a) *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.
- b) *Ancillary Services*
Ancillary Services segment consists of High Arctic's oilfield rental equipment in Canada and PNG and its Canadian nitrogen services which was sold in July 2023 (see Note 5).
- c) *Production Services*
This segment consisted of the Corporation's Canadian well servicing and snubbing assets in Canada that were sold as a part of two transactions in 2022 (see Note 1). The remaining Production Services business consists of the Corporation's snubbing assets in the US, its equity investment in Team Snubbing and Seh' Chene Well Services Limited Partnership, and its hydraulic workover rig in PNG.

i. Revenues from geographical location

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2023	2022	2023	2022
Revenue				
PNG	16,800	6,464	41,472	26,963
Canada	1,014	5,476	2,347	38,315
Total revenue from continuing operations	17,814	11,940	43,819	65,278
Total revenue from discontinued operations	105	579	1,307	1,643

ii. Geographical location and segmented assets

Segment	As at September 30, 2023		As at December 31, 2022	
	Non-current assets	Total Assets	Non-current assets	Total Assets
PNG	19,142	55,102	44,847	68,649
Canada	19,241	60,464	19,832	65,308
	38,383	115,566	64,679	133,957

(thousands of Canadian Dollars)	As at Sept 30, 2023					As at Dec 31, 2022				
	Drilling Services	Ancillary Services	Production Services	Corporate	Total	Drilling Services	Ancillary Services	Production Services	Corporate	Total
Property and equipment	12,706	6,609	1,973	4,234	25,522	31,787	16,331	4,462	382	52,962
Right of use assets	1,501	228	-	83	1,812	314	490	-	570	1,374
Total assets	41,900	16,045	10,582	47,039	115,566	52,256	27,263	12,773	41,665	133,957

iii. Segment income (loss) from reportable segments

Three months ended Sept 30, 2023						
(thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Corporate	Inter- segment elimination	Total
Revenue	13,940	3,874	-	-	-	17,814
Oilfield services expenses	(10,731)	(1,190)	(38)	-	-	(11,959)
General and administrative expenses	(1,002)	(580)	(11)	(1,060)	-	(2,653)
Interest and other income	-	-	-	538	-	538
Interest and finance expenses	-	-	-	(47)	-	(47)
Foreign exchange gain	-	-	-	159	-	159
Depreciation and amortization expenses	(1,616)	(689)	(345)	(128)	-	(2,778)
Share-based compensation expenses	-	-	-	(116)	-	(116)
Asset impairment expenses	(20,500)	-	-	-	-	(20,500)
Loss on sale of property and equipment	-	(34)	-	-	-	(34)
Gain on sale of nitrogen business	-	615	-	-	-	615
Income from equity investment	-	-	508	-	-	508
Net segment income (loss) before income tax from continuing operations	(19,909)	1,996	114	(654)	-	(18,453)
Net segment loss from discontinued operations	-	(124)	-	-	-	(124)

Three months ended Sept 30, 2022						
(thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Corporate	Inter- segment elimination	Total
Revenue	4,870	2,326	4,959	-	(215)	11,940
Oilfield services expenses	(3,718)	(882)	(4,469)	-	215	(8,854)
General and administrative expenses	(989)	(71)	(494)	(934)	-	(2,488)
Interest and other income	-	-	-	68	-	68
Interest and finance expenses	-	-	-	(965)	-	(965)
Foreign exchange loss	-	-	-	(131)	-	(131)
Depreciation and amortization expenses	(1,644)	(1,314)	-	(40)	-	(2,998)
Share-based compensation expenses	-	-	-	(182)	-	(182)
Asset impairment expenses	-	-	(879)	-	-	(879)
Gain on sale of property and equipment	-	24	4	-	-	28
Income from equity investment	-	-	296	-	-	296
Net segment income (loss) before income tax from continuing operations	(1,481)	83	(583)	(2,184)	-	(4,165)
Net segment loss from discontinued operations	-	(178)	-	-	-	(178)

Nine months ended Sept 30, 2023						
(thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Corporate	Inter- segment elimination	Total
Revenue	33,653	10,166	-	-	-	43,819
Oilfield services expenses	(25,475)	(3,091)	(38)	-	-	(28,604)
General and administrative expenses	(2,855)	(771)	(33)	(3,000)	-	(6,659)
Interest and other income	-	-	-	1,465	-	1,465
Interest and finance expenses	(161)	(6)	-	(50)	-	(217)
Foreign exchange loss	-	-	-	(72)	-	(72)
Depreciation and amortization expenses	(5,092)	(2,288)	(1,103)	(178)	-	(8,661)
Share-based compensation expenses	-	-	-	(268)	-	(268)
Asset impairment expenses	(20,500)	-	-	-	-	(20,500)
Gain on sale of property and equipment	7	78	-	24	-	109
Gain on sale of nitrogen business	-	615	-	-	-	615
Income from equity investment	-	-	451	-	-	451
Net segment income (loss) before income tax from continuing operations	(20,423)	4,703	(723)	(2,079)	-	(18,522)
Net segment loss before income tax from discontinued operations	-	(305)	-	-	-	(305)

Nine months ended Sept 30, 2022						
(thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Corporate	Inter- segment elimination	Total
Revenue	20,545	10,235	36,099	-	(1,601)	65,278
Oilfield services expenses	(15,832)	(3,460)	(33,219)	-	1,601	(50,910)
General and administrative expenses	(2,896)	(275)	(2,093)	(2,418)	-	(7,682)
Interest and other income	-	-	-	71	-	71
Interest and finance expenses	-	-	-	(1,417)	-	(1,417)
Foreign exchange loss	-	-	-	(182)	-	(182)
Depreciation and amortization expenses	(5,257)	(3,157)	(5,728)	(118)	-	(14,260)
Share-based compensation expenses	-	-	-	(533)	-	(533)
Asset impairment expenses	-	-	(9,558)	-	-	(9,558)
Gain (loss) on property and equipment	(133)	723	(423)	-	-	167
Income from equity investment	-	-	424	-	-	424
Net segment income (loss) before income tax from continuing operations	(3,573)	4,066	(14,498)	(4,597)	-	(18,602)
Net segment loss before income tax from discontinued operations	-	(585)	-	-	-	(585)

17. 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 \$8,294 at September 30, 2023 (December 31, 2022 - \$8,309) by a customer for the Corporation's operations in PNG, the underlying value is denominated in USD. The capital equipment and inventory are owned by this party and have not been recorded on the books of High Arctic. Written notice is required to end the contract. When the notice to terminate is communicated, the Corporation must return the balance of capital equipment and inventory and make a payment to the customer equivalent to any shortfall. As at, September 30, 2023, the Corporation has recorded a current obligation of \$3,264 (December 31, 2022 - \$3,270) as a result of consuming third-party owned inventory in operations which it is required to replenish on or prior to the termination of the contractual arrangement.