

HIGH ARCTIC ENERGY SERVICES INC.



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE AND SIX MONTH PERIODS ENDED
JUNE 30, 2017**

High Arctic Energy Services Inc.
Consolidated Statements of Financial Position
As at June 30, 2017 and December 31, 2016
Unaudited - Canadian \$ Million

	Notes	June 30, 2017	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents		26.1	27.3
Accounts receivable	4	36.7	49.1
Short term investments	5	3.2	4.8
Inventory	6	9.5	8.8
Prepaid expenses		1.3	0.7
		<u>76.8</u>	<u>90.7</u>
Non-current assets			
Property and equipment	8	197.0	209.2
Deferred tax asset		5.4	5.2
		<u>197.0</u>	<u>209.2</u>
Total assets		<u>279.2</u>	<u>305.1</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	23.3	33.8
Income taxes payable		1.2	0.1
Dividend payable	12	0.9	0.9
Capital lease obligation	10	1.4	1.7
Current portion of deferred revenue	11	1.4	1.6
Current portion of long-term debt	14	-	24.0
		<u>28.2</u>	<u>62.1</u>
Non-current liabilities			
Deferred revenue	11	0.3	0.9
Unfavourable lease liability	7	3.2	3.3
Long-term debt	14	6.1	-
Deferred tax liability		8.0	8.6
		<u>17.6</u>	<u>12.8</u>
Total liabilities		<u>45.8</u>	<u>74.9</u>
Shareholders' equity	15	<u>233.4</u>	<u>230.2</u>
Total liabilities and shareholders' equity		<u>279.2</u>	<u>305.1</u>
Commitments and contingencies	19		

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Corporation by:

(signed) "Michael Binnion" Director

(signed) "Dan Bordessa" Director

High Arctic Energy Services Inc.

Consolidated Statements of Earnings and Comprehensive Income

For the three and six months ended June 30, 2017 and 2016

Unaudited - Canadian \$ Million, except per share amounts

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2017	2016	2017	2016
Revenue	22	51.1	43.5	115.9	98.2
Expenses					
Oilfield services	17	32.4	25.4	71.7	54.6
General and administration	17	4.4	3.0	8.9	6.7
Depreciation	8	6.5	5.4	12.9	11.2
Share-based compensation	16	-	0.3	0.1	0.6
		43.3	34.1	93.6	73.1
Operating earnings for the period		7.8	9.4	22.3	25.1
Foreign exchange (gain) loss		(0.2)	0.1	(0.3)	0.4
Gain on sale of property and equipment		-	-	-	(0.1)
Interest and finance expense		0.3	0.1	0.7	0.2
Net earnings before income taxes		7.7	9.2	21.9	24.6
Current income tax expense		5.1	1.6	8.5	4.4
Deferred income tax expense (recovery)		(2.4)	1.3	(0.6)	2.7
		2.7	2.9	7.9	7.1
Net earnings for the period		5.0	6.3	14.0	17.5
Earnings per share:	15				
Basic		0.09	0.12	0.26	0.33
Diluted		0.09	0.12	0.26	0.33
		Three Months Ended June 30		Six Months Ended June 30	
		2017	2016	2017	2016
Net earnings for the period		5.0	6.3	14.0	17.5
Other comprehensive income (loss):					
Items that may be reclassified to profit or loss:					
Foreign currency translation losses for foreign operations		(3.2)	(0.7)	(4.6)	(10.1)
Items that will not be reclassified to profit or loss:					
Gains (losses) on short term investments, net of tax (note 5)		(0.3)	1.3	(1.0)	2.6
Comprehensive income for the period		1.5	6.9	8.4	10.0

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.

Consolidated Statements of Changes in Equity

For the six months ended June 30, 2017 and 2016

Unaudited - Canadian \$ Million

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings (deficit)	Total shareholders' equity
Balance at January 1, 2017		185.5	9.1	28.6	7.0	230.2
Net earnings		-	-	-	14.0	14.0
Dividends	12	-	-	-	(5.3)	(5.3)
Other comprehensive income - foreign currency translation loss		-	-	(4.6)	-	(4.6)
Other comprehensive income - loss on short term investments	5	-	-	(1.0)	-	(1.0)
Share-based payment transactions		0.3	(0.2)	-	-	0.1
Balance at June 30, 2017		185.8	8.9	23.0	15.7	233.4

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings (deficit)	Total shareholders' equity
Balance at January 1, 2016		189.7	9.4	29.7	(27.6)	201.2
Net earnings		-	-	-	17.5	17.5
Dividends	12	-	-	-	(5.2)	(5.2)
Other comprehensive income - foreign currency translation loss		-	-	(10.1)	-	(10.1)
Other comprehensive income - gain on short term investments	5	-	-	2.6	-	2.6
Purchase of common shares for cancellation		(6.7)	0.2	-	-	(6.5)
Share-based payment transactions		0.5	-	-	-	0.5
Balance at June 30, 2016		183.5	9.6	22.2	(15.3)	200.0

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the three and six months ended June 30, 2017 and 2016

Unaudited - Canadian \$ Million

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2017	2016	2017	2016
Net earnings for the period		5.0	6.3	14.0	17.5
Adjustments for non-cash items:					
Depreciation	8	6.5	5.4	12.9	11.2
Provision for onerous lease	13	(0.1)	-	(0.2)	-
Share-based compensation	16	0.1	0.3	0.1	0.6
Gain on sale of property and equipment		-	-	-	(0.1)
Foreign exchange (gain) loss		-	0.1	(0.1)	0.4
Deferred income tax expense (recovery)		(2.4)	1.3	(0.6)	2.7
		9.1	13.4	26.1	32.3
Net changes in items of working capital	18	22.3	12.4	0.4	14.6
Net cash generated from operating activities		31.4	25.8	26.5	46.9
Investing activities					
Additions of property and equipment	8	(1.8)	(2.3)	(4.4)	(7.4)
Disposal of short term investments		-	0.5	0.6	0.5
Disposal of property and equipment		-	0.1	0.1	0.1
Net changes in items of working capital	18	0.2	-	0.2	-
Net cash used in investing activities		(1.6)	(1.7)	(3.5)	(6.8)
Financing activities					
Long-term debt proceeds	14	0.6	-	8.2	-
Long-term debt repayments	14	(20.0)	-	(26.1)	(4.0)
Dividend payments	12	(2.7)	(2.6)	(5.3)	(5.2)
Purchase of common shares for cancellation	15	-	(4.1)	-	(6.5)
Issuance of common shares, net of costs	15	0.1	0.1	0.1	0.3
Capital lease obligation payments	10	(0.1)	(0.2)	(0.3)	(0.5)
Net cash used in financing activities		(22.1)	(6.8)	(23.4)	(15.9)
Effect of exchange rate changes		(0.7)	(0.1)	(0.8)	(2.0)
Net change in cash and cash equivalents		7.0	17.2	(1.2)	22.2
Cash and cash equivalents - beginning of period		19.1	20.5	27.3	15.5
Cash and cash equivalents - end of period		26.1	37.7	26.1	37.7
Cash paid for:					
Interest		0.3	0.1	0.7	0.2
Income taxes		6.6	1.5	7.4	2.9

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and six months ended June 30, 2017 and 2016

Unaudited - Canadian \$ Million, except per share amounts

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". The head office of the Corporation is located at 700 – 2nd Street S.W. Suite 500, Calgary, Alberta, Canada, T2P 2W1. High Arctic's business is to provide contract drilling, completion services, equipment rentals and other oilfield services to the oil and natural gas industry in Papua New Guinea and Canada.

2 Basis of Preparation

These condensed consolidated interim financial statements ("Financial Statements") of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 – Interim Financial Reporting ("IAS 34"). These Financial Statements should be read in conjunction with High Arctic's consolidated financial statements for the year ended December 31, 2016 wherein the Corporation's significant accounting policies were presented in Note 3. The significant accounting policies have been consistently applied in the preparation of these Financial Statements.

The Financial Statements of High Arctic for the three and six months ended June 30, 2017 were approved by the Board of Directors on August 9, 2017.

3 Critical Accounting Estimates and Judgements

Depreciation

Depreciation of the Corporation's property and equipment incorporates estimates of useful lives and residual values. Equipment under construction is not depreciated until it is available for use. Included in property and equipment is equipment under a financing lease. Effective January 1, 2017, all equipment is depreciated based on the straight-line method over the asset's useful life in years. Previously, property and equipment was depreciated using the declining balance method, excluding drilling and service rigs, which were depreciated using the straight-line method. Upon the Corporation's review of depreciation methodology during the first quarter of 2017, it was determined that using the straight-line method is a more accurate reflection of the pattern in which the asset's future economic benefits are expected to be consumed. Existing assets were assessed for their remaining useful lives in years and are being depreciated prospectively on that basis. Had the Corporation continued to depreciate the assets using declining balance, depreciation expense would have been approximately \$13.3 million for the first six months of 2017, which is \$0.4 million higher than what was recorded in the current period.

For the period ended June 30, 2017

	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	7 - 10 years	Up to 5%	Straight line
Hydraulic workover and UB rigs	7 - 10 years	Up to 5%	Straight line
Snubbing	7 - 10 years	Up to 5%	Straight line
Nitrogen	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 computer hardware	3 - 5 years	Up to 5%	Straight line
Computer software	3 - 5 years	nil	Straight line
Leasehold improvements	Lease term or five years	nil	Straight line

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and six months ended June 30, 2017 and 2016

Unaudited - Canadian \$ Million, except per share amounts

For the period ended December 31, 2016

	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	20%	N/A	Declining balance
Drilling support	12.5% - 20%	N/A	Declining balance
Hydraulic workover and UB rigs	12.5% - 15%	N/A	Declining balance
Snubbing	15% - 17.5%	N/A	Declining balance
Nitrogen	17.50%	N/A	Declining balance
Rentals and matting	20%	N/A	Declining balance
Light vehicles	30%	N/A	Declining balance
Heavy trucks	15% - 20%	N/A	Declining balance
Buildings	4%	N/A	Declining balance
Office equipment and computer hardware	20% - 30%	N/A	Declining balance
Computer software	50% - 100%	N/A	Declining balance
Leasehold improvements	Lease term or five years	N/A	Declining balance

Residual values, method of depreciation and useful lives of the assets are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis.

4 Accounts Receivable

The Corporation applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses below also incorporate forward looking information.

	June 30, 2017	December 31, 2016
Less than 31 days	27.2	30.3
31 to 60 days	0.9	13.9
61 to 90 days	3.0	4.3
Greater than 90 days	5.7	0.7
Allowance for doubtful accounts	(0.1)	(0.1)
Total	36.7	49.1

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

Canadian dollar (in millions)	12.7	12.4
United States dollar (in millions) (2017 - US \$18.4; 2016 - US \$27.4)	24.0	36.7
Total	36.7	49.1

5 Short Term Investments

High Arctic periodically invests in the common shares and debt instruments of certain publicly traded oil and gas service companies. As at June 30, 2017, the investments are presented at a fair value of \$3.2 million (December 31, 2016 - \$4.8 million) which is \$2.5 million (December 31, 2016 - \$1.7 million) less than the original cost. The difference in fair value of \$2.5 million has been included in accumulated other comprehensive income. For the three and six months ended June 30, 2017, decreases in fair value of \$0.7 and \$0.3 million, respectively, have been included in other comprehensive income.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and six months ended June 30, 2017 and 2016

Unaudited - Canadian \$ Million, except per share amounts

During the six months ended June 30, 2017, the Corporation disposed of investments in equity securities, which had an original cost of \$0.9 million, for proceeds of \$0.6 million. The resulting loss of \$0.3 million has been included in other comprehensive income.

Short term investments consist of the following:

	June 30, 2017	December 31, 2016
Investments in equity securities	3.2	4.8
Total	3.2	4.8

6 Inventory

As at June 30, 2017 the Corporation had inventory of \$9.5 million (December 31, 2016 - \$8.8 million), which is primarily comprised of parts and materials related to maintenance, recertification and refurbishment of rigs and rig-related equipment. During the three and six months ended June 30, 2017, the Corporation did not recognize an impairment on inventory items (2016 – nil).

7 Business Acquisition

On August 31, 2016, High Arctic acquired the Production Services Division of Tervita Corporation (the “PS Division”) by payment of cash in the amount of \$42.8 million. The acquisition diversifies High Arctic’s revenue base within the Canadian well servicing industry. The acquisition has been accounted for as a business combination using the acquisition method of accounting whereby the assets acquired and the liabilities assumed are recorded at estimated fair value on the acquisition date. 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 a gain on acquisition. Transaction costs associated with the acquisition are expensed when incurred.

The Corporation recognized a gain on the acquisition of the PS Division as the total fair value of the net assets acquired, based on an independent appraisal, exceeded the fair value of the consideration paid.

The following table summarizes the allocation of the purchase price:

Cash and cash equivalents	42.8
Consideration	42.8
Property and equipment	64.0
Unfavourable lease liability – current portion	(0.4)
Unfavourable lease liability – long-term portion	(3.4)
Deferred tax liability	(4.7)
Fair value of net assets acquired	55.5
Gain on acquisition	12.7

The Corporation relied on a third party appraisal for the fair value of the assets acquired, less management’s estimate of the liability associated with an unfavorable lease assumed in the transaction and the deferred income taxes associated with the timing differences between the tax and accounting values for the net assets acquired. Changes to any of these assumptions or estimates could impact the amounts assigned to assets acquired, liabilities assumed, and the gain on the acquisition.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and six months ended June 30, 2017 and 2016

Unaudited - Canadian \$ Million, except per share amounts

8 Property and Equipment

The following tables provide a continuity of the property and equipment costs, net of impairment and accumulated depreciation, and provide details of the effects of foreign currency translation for the year ended December 31, 2016 and the six months ended June 30, 2017.

Cost:	Vehicles	Oilfield Equipment	Computer hardware and office equipment	Land & Building	Work-in-progress	Total
Balance, January 1, 2016	12.7	268.2	2.7	5.3	0.5	289.4
Acquisition (note 7)	1.0	55.0	-	8.0	-	64.0
Additions	-	-	-	-	10.2	10.2
Capital lease obligation (note 10)	-	-	-	-	2.5	2.5
Disposals	(0.6)	(2.9)	-	-	-	(3.5)
Transfers	0.5	11.0	0.3	-	(11.8)	-
Effect of foreign exchange	-	(5.5)	-	-	-	(5.5)
Balance, December 31, 2016	13.6	325.8	3.0	13.3	1.4	357.1
Additions	-	-	-	-	4.4	4.4
Disposals	(0.6)	-	-	-	-	(0.6)
Transfers	0.1	3.3	0.2	-	(3.6)	-
Effect of foreign exchange	(0.1)	(6.1)	0.1	-	-	(6.1)
Balance, June 30, 2017	13.0	323.0	3.3	13.3	2.2	354.8

Accumulated depreciation and impairments:	Vehicles	Oilfield Equipment	Computer hardware and office equipment	Land & Building	Work-in-progress	Total
Balance, January 1, 2016	9.3	116.0	2.2	0.2	-	127.7
Depreciation for the year	0.7	23.3	0.2	0.2	-	24.4
Disposals	(0.5)	(2.3)	-	-	-	(2.8)
Effect of foreign exchange	-	(1.4)	-	-	-	(1.4)
Balance, December 31, 2016	9.5	135.6	2.4	0.4	-	147.9
Depreciation for the period	0.7	11.6	0.4	0.2	-	12.9
Disposals	(0.5)	-	-	-	-	(0.5)
Effect of foreign exchange	-	(2.5)	-	-	-	(2.5)
Balance, June 30, 2017	9.7	144.7	2.8	0.6	-	157.8

Carrying amounts of property and equipment:

At December 31, 2016	4.1	190.2	0.6	12.9	1.4	209.2
At June 30, 2017	3.3	178.3	0.5	12.7	2.2	197.0

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and six months ended June 30, 2017 and 2016

Unaudited - Canadian \$ Million, except per share amounts

The Corporation undertakes a review for impairment of its cash-generating units ("CGUs") at each reporting date to determine whether there is any indication of impairment. As a result of the decline in the Corporation's publicly traded market value, the Corporation conducted a test for impairment as at June 30, 2017. Based on a value in use calculation reflecting discounted future cash flows, the Corporation determined the recoverable value of the Corporation's CGUs exceeded their respective carrying values, therefore, no impairment was recognized at June 30, 2017.

9 Accounts Payable and Accrued Liabilities

	June 30, 2017	December 31, 2016
Accounts payable	10.8	18.3
Accrued liabilities	7.8	9.5
Accrued payroll	4.1	5.3
Unfavourable lease liability (note 7)	0.4	0.4
Onerous lease liability (note 13)	0.2	0.3
Total	23.3	33.8

10 Capital Lease Obligation

During 2016, the Corporation received certain equipment under a finance lease with a purchase option after a twelve month lease term as well as an option to extend the lease term by additional twelve months. The fair value of the equipment of \$2.5 million has been included with property and equipment with a corresponding lease obligation liability that is reduced by the principal portion of the monthly payments related to the principal of the lease. During the first quarter of 2017, the Corporation exercised the option to extend the lease term by an additional twelve months with an option to purchase the equipment at the end of the extended lease term. As at June 30, 2017, future minimum lease payments totaled \$1.5 million (including the expected exercise of the purchase option) and are all due within one year. These future lease payments include an amount of \$0.1 million representing interest, and as at June 30, 2017 the remaining obligation related to the lease was \$1.4 million (December 31, 2016 - \$1.7 million).

11 Deferred Revenue

Pursuant to contracts primarily related to the provision of drilling rigs, the Corporation has received payments that will be recognized as revenue in future periods over the life of the related contracts. As at June 30, 2017, \$1.4 million (December 31, 2016 - \$1.6 million) will be recognized as revenue in the next twelve months and has been disclosed as a current liability with the remaining \$0.3 million (December 31, 2016 - \$0.9 million) disclosed as a non-current liability.

12 Dividend Payable

Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. During the six months ended June 30, 2017, the Corporation declared dividends of \$5.3 million (2016 - \$5.2 million), of which \$0.9 million was payable as of June 30, 2017 (December 31, 2016 - \$0.9 million). Since June 30, 2017, a monthly dividend of \$0.0165 per share has been declared for a total of \$0.9 million.

13 Onerous Lease

During the fourth quarter of 2016, the Corporation relocated its head office to accommodate additional employees joining High Arctic as a result of the acquisition of the Production Services division of Tervita. The Corporation has subleased the previous office space for the remaining lease term. As a result of the current downturn in the Calgary downtown real estate market, High Arctic subleased the space at a rate that was below the contracted

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and six months ended June 30, 2017 and 2016

Unaudited - Canadian \$ Million, except per share amounts

rate in the lease agreement, resulting in an onerous lease liability of \$0.2 million as at June 30, 2017 (December 2016 – \$0.3 million).

14 Long-Term Debt

In the first quarter of 2017, High Arctic renewed its existing credit facility. As at June 30, 2017, High Arctic's credit facilities consisted of a \$45.0 million revolving loan facility which matures on August 31, 2019. The facility is renewable with the lender's consent and is secured by a general security agreement over the Corporation's assets.

The available amount under the \$45.0 million revolving loan facility is limited to 60% of the net book value of the Canadian fixed assets plus 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement. As at June 30, 2017, approximately \$6.1 million was drawn on the facility and total credit available to draw was approximately \$38.9 million.

The Corporation's loan facilities are subject to three financial covenants, which are reported to the lender on a quarterly basis:

Covenants	Required	June 30, 2017
Funded debt to EBITDA	2.50 : 1 Maximum	0.11 : 1
Current ratio	1.25 : 1 Minimum	2.72 : 1
Fixed charge coverage ratio	1.25 : 1 Minimum	12.54 : 1

(1) Funded debt to EBITDA is defined as the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing 4 quarters.

(2) Current ratio is defined as the ratio of consolidated current assets to consolidated net current liabilities (excluding current portion of long-term debt and other debt, if any).

(3) Fixed charge coverage ratio is defined as EBITDA less cash taxes, dividends, distributions and unfunded capital expenditures divided by the total of principal payments on long term debt and capital leases (in which principal payments means the total principal amount of the loan outstanding at the end of the quarter amortized over a 7 year period).

There have been no changes to these financial covenants subsequent to June 30, 2017 and the Corporation remains in compliance with the financial covenants under its credit facility as at June 30, 2017.

Reconciliation of Liabilities to Cash Flows Arising from Financing Activities

	Short-Term Borrowings	Long-Term Borrowings
As at December 31, 2016	24.0	-
Changes from financing cash flows	-	(17.9)
Non-cash changes:		
Reclassification from current to non-current	(24.0)	24.0
As at June 30, 2017	-	6.1

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and six months ended June 30, 2017 and 2016

Unaudited - Canadian \$ Million, except per share amounts

15 Share Capital and Other Components of Equity

(a) Share Capital

Authorized – an unlimited number of common shares and an unlimited number of preferred shares.

Issued:	Six months ended June 30, 2017		Year Ended December 31, 2016	
	Shares	\$	Shares	\$
Balance, beginning of year	53,174,369	185.4	54,330,169	189.5
Issuance of shares upon exercise of options (note 16)	75,070	0.3	703,400	2.5
Normal course issuer bid	-	-	(1,911,400)	(6.7)
Vested restricted shares (note 16)	-	-	52,200	0.1
Common shares outstanding (note 16)	53,249,439	185.7	53,174,369	185.4
Unvested restricted shares outstanding (note 16)	26,600	0.1	6,600	0.1
Total common and restricted shares outstanding	53,276,039	185.8	53,180,969	185.5

Issuance of Shares

For the six months ended June 30, 2017 a total of 75,070 (year ended December 31, 2016 – 703,400) stock options were exercised for shares of the Corporation (see note 16).

Normal Course Issuer Bid

In January, 2015, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 5 percent of the Corporation's issued and outstanding common shares under a Normal Course Issuer Bid ("the Bid"). The Bid commenced on January 12, 2015 and was valid for one year.

In January, 2016, the Corporation received approval from the Toronto Stock Exchange to renew the Bid for a one year period. As of December 31, 2016, 1,845,800 common shares had been purchased and cancelled at a total cost of \$6.5 million pursuant to the renewal. The Bid was not renewed upon its expiry in January 2017.

(b) Per Share Amounts

The following table summarizes the weighted average number of common shares used in calculating basic and diluted earnings per share. All potentially dilutive instruments such as options and the restricted shares issued under the Executive and Director Share Incentive Plan are considered.

	Six months ended June 30, 2017		Six months ended June 30, 2016	
	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings per share	53,204,339	\$0.26	53,285,500	\$0.33
Dilution effect of options	417,320	-	292,144	-
Weighted average number of common shares used in diluted earnings per share	53,621,659	\$0.26	53,577,644	\$0.33

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and six months ended June 30, 2017 and 2016

Unaudited - Canadian \$ Million, except per share amounts

	Three months ended June 30, 2017		Three months ended June 30, 2016	
	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings per share	53,232,296	\$0.09	52,597,440	\$0.12
Dilution effect of options	331,938	-	367,729	-
Weighted average number of common shares used in diluted earnings per share	53,564,234	\$0.09	52,965,169	\$0.12

For the six months ended June 30, 2017, zero stock options (2016 – 2,957,656) were excluded in the calculation of diluted earnings per share as the effect would have been anti-dilutive.

16 Share-based Compensation

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. A total of 5,327,604 options (being 10% of all outstanding shares) are available for grants. At June 30, 2017, a total of 1,696,500 options are outstanding and expire at various dates up to 2022, at amounts that range from \$2.43 to \$5.32 per share. These options are exercisable over a term of 5 years and are generally subject to a three year vesting period with 40% exercisable by the holder after the first anniversary date, 70% after the second anniversary date and 100% after the third anniversary date. The options have an average remaining contractual life of 2.5 years and 1,303,650 options are currently vested and eligible to be exercised.

	Number of Options	Weighted Average Exercise Price \$/Share
Total Outstanding January 1, 2016	3,532,200	3.71
Granted	205,000	3.62
Exercised	(953,400)	2.26
Forfeited	(511,800)	4.25
Expired	(420,400)	4.82
Total Outstanding December 31, 2016	1,851,600	4.04
Granted	75,000	5.07
Exercised	(75,070)	2.73
Forfeited	(155,030)	4.29
Total Outstanding June 30, 2017	1,696,500	4.12

The options exercised in 2017 had a weighted average market price of \$5.14 per share on the date of exercise.

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Exercise Price Range	Options Outstanding			Exercisable Options	
	Number of Options	Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
\$2.43 to \$2.83	118,000	1.3	2.77	118,000	2.77
\$3.39 to \$3.87	955,000	2.6	3.58	719,250	3.52
\$4.77 to \$5.32	623,500	2.6	5.21	466,400	5.24
Total Outstanding June 30, 2017	1,696,500	2.5	4.12	1,303,650	4.07

Share-based compensation is a non-cash item and is measured in accordance with a prescribed formula. Share-based compensation expense recognized by the Corporation for the Stock Option Plan for the six months ended June 30, 2017 was less than \$0.1 million (2016 - \$0.4 million). The fair values of stock options granted have been estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Year of Grant	Six months ended June 30, 2017	Six months ended June 30, 2016
Average fair value per option granted	0.83	0.59
Average expected life (years)	3.0	3.0
Expected volatility (%)	36	37
Expected forfeiture rate (%)	27	0
Average risk-free interest rate (%)	0.85	0.48
Expected distribution yield (%)	3.9	5.7

Share Incentive Plan

During the six months ended June 30, 2017, 46,400 shares that had fully vested were released from the trust to the designated beneficiaries and an additional 20,000 shares were issued under the EDSIP.

For the six months ended June 30, 2017, the Corporation incurred share based compensation expense of less than \$0.1 million (2016 - \$0.1 million) related to the EDSIP and an amount of \$0.1 million (before recognizing a reduction for any future forfeitures of common shares) remains to be amortized in future periods in respect of the common shares issued to date under the Plan. A forfeiture rate of nil has been assumed in the share based compensation expense assumptions with the expense adjusted when actual forfeitures occur.

Restricted Shares Units

During the six months ended June 30, 2017, 100,000 Restricted Share Units ("RSUs") were granted.

The Corporation incurred less than \$0.1 million of share based compensation expense (2016 - \$0.1 million) related to the 253,600 RSUs outstanding and an amount of \$0.5 million (before recognizing a reduction for any future forfeitures and effect of future revaluation) remains to be amortized in future periods in respect of the RSUs.

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17 Expenses

Oilfield services expenses by nature:	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
	Personnel costs and personnel related costs	17.6	9.7	39.5
Drilling rig rental costs	4.2	8.3	9.4	17.2
Material and supplies costs	6.0	5.6	12.7	11.2
Equipment operating and maintenance costs	3.4	1.3	7.7	3.0
Other	1.2	0.5	2.4	0.8
Total	32.4	25.4	71.7	54.6

General and administrative expenses by nature:	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
	Personnel costs and personnel related costs	3.4	2.3	6.9
Professional, legal and consulting fees	0.4	0.2	0.9	0.6
Facility costs	0.1	0.3	0.2	0.6
Leases	0.2	0.2	0.4	0.5
Other	0.3	-	0.5	0.3
Total	4.4	3.0	8.9	6.7

18 Supplemental Cash Flow Information

Changes in non-cash working capital is comprised of:

Note	Three months ended June 30		Six months ended June 30		
	2017	2016	2017	2016	
	Accounts receivable	4	38.5	15.5	11.9
Inventory and prepaid expenses		(1.3)	(1.3)	(1.7)	(1.4)
Accounts payable and accrued liabilities	9	(13.1)	(1.4)	(10.1)	(6.3)
Income taxes payable		(0.2)	0.1	2.4	2.1
Deferred revenue	11	(1.4)	(0.5)	(1.9)	(1.1)
Total		22.5	12.4	0.6	14.6
Related to:					
Operating activities		22.3	12.4	0.4	14.6
Investing activities		0.2	-	0.2	-
		22.5	12.4	0.6	14.6

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19 Commitments and Contingencies

Inventory

The Corporation has been supplied an inventory of spare parts with a value of \$7.1 million by a customer in Papua New Guinea. The inventory is owned by the customer and has not been recorded on the books of High Arctic. At the end of the contract, the Corporation must return an equivalent amount of inventory to the customer. In 2016, the Corporation recorded a provision of \$0.7 million recognized within accrued liabilities to account for potential shortfall in inventory, which may be cash settled with the customer.

Capital and Operating Lease Obligations

The Corporation has entered into long-term premise leases for operating facilities. These leases are operating leases and the remaining length of the lease terms are up to fifteen years. All the premise leases have renewal terms which allow the Corporation to renew the lease for various lengths at the market rates negotiated at the time of renewal. The minimum lease payments for the next fifteen years as at June 30, 2017 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility and equipment lease commitments	2.3	2.0	1.8	9.1	15.2
Total lease commitments	2.3	2.0	1.8	9.1	15.2

20 Capital Disclosures

The Corporation's capital structure is comprised of shareholders' equity and long term debt less cash and cash equivalents.

	June 30, 2017	December 31, 2016
Shareholder's equity	233.4	230.2
Current portion of long-term debt	-	24.0
Long-term debt	6.1	-
Cash and cash equivalents	(26.1)	(27.3)
Total Capitalization	213.4	226.9

The Corporation's goal is to have a capital structure that will provide the capital to meet the needs of its business and instil confidence with investors, creditors and capital markets.

Financing decisions for the foreseeable future will be governed largely by managing the available cash and liquidity available under the Corporation's credit facilities based on the timing and extent of expected operating and capital cash outlays. Future equity and debt financings are a possibility to raise capital for new business opportunities.

21 Financial Instruments and Risk Management

Fair Value of Financial Assets and Liabilities

Cash and cash equivalents include cash and term deposits and are classified as financial assets at fair value through profit and loss. Cash and cash equivalents are measured at fair value and unrealized gains or losses related to changes in fair value are reported in income. Accounts receivable, and other receivables are classified as assets at amortized cost using the effective interest method, less impairment allowance, if any. Any gains or losses on the realization of loans and receivables are included in earnings. The fair value of accounts and other receivables and the demand portion of any amounts due from related parties approximate their carrying values due to the short-term nature of these instruments.

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The Corporation's short term investments are designated as financial assets at fair value through other comprehensive income and are initially recognized at fair value on the settlement date, net of directly attributable transaction costs. Future changes in fair value are recognized in other comprehensive income (OCI), net of tax and are not recycled into income. Financial assets at fair value comprise listed Canadian public company investments. These assets are carried at fair value on the Consolidated Statements of Financial Position. Fair value is determined by quoted prices in active markets for identical assets (Level 1).

Accounts payable and accrued liabilities and the long-term debt are designated as other liabilities and are recorded at amortized cost.

Financial and Other Risks

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk relating to interest rate risk, foreign currency risk, commodity price risk, risks of foreign operations, income tax risk, credit risk and liquidity risk.

Market Risk

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 of interest, foreign currency exchange rates and commodity prices.

Other Price Risk

Other price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer or factors affecting all similar financial instruments in the market or a market segment. Exposure to other price risk is primarily in short term investments where changes in quoted prices on investments in equity securities impact the underlying value of investments.

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 is exposed to interest rate risk as the long term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. For the six months ended June 30, 2017, a one percent change in interest rates on the loan facility would be less than \$0.1 million.

Foreign Currency Risk

Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results. The majority of the Corporation's international revenue and expenses are transacted in U.S. dollars and the Corporation does not actively engage in foreign currency hedging. For the six months ended June 30, 2017, a \$0.10 change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a \$1.3 million change in net earnings for the period as a result of changes in foreign exchange.

Credit Risk and Customers

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 are predominantly with customers who explore for and develop petroleum reserves and are subject to normal industry credit risks. The Corporation assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding. The Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. 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 Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation provides services to three large multinational/regional

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customers (2016 – four) which individually accounted for greater than 10% of its consolidated revenues during the six months ended June 30, 2017. Sales to these three customers were approximately \$30.4 million, \$14.7 million and \$20.7 million respectively for the six months ended June 30, 2017 (2016 - \$34.4 million, \$14.7 million and \$16.7 million). As at June 30, 2017, these three customers represented 37%, 8% and 11%, respectively, of outstanding accounts receivable (December 31, 2016 – three customers represented a total of 53%). Management has assessed the three customers as creditworthy and the Corporation has had no history of collection issues with these customers.

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, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Corporation seeks to manage its financing based on the results of these processes. The following are the contractual maturities of financial liabilities in their future fair value amounts:

June 30, 2017	Beyond 5				Total
	1 Year	2-3 Years	4-5 Years	Years	
Accounts payable	23.3	-	-	-	23.3
Dividends payable	0.9	-	-	-	0.9
Long term debt ⁽¹⁾	0.3	6.5	-	-	6.8
Total	24.5	6.5	-	-	31.0

December 31, 2016	Beyond 5				Total
	1 Year	2-3 Years	4-5 Years	Years	
Accounts payable	33.8	-	-	-	33.8
Dividends payable	0.9	-	-	-	0.9
Long term debt ⁽¹⁾	24.5	-	-	-	24.5
Total	59.2	-	-	-	59.2

⁽¹⁾ Long-term debt includes future expected interest payments

22 Operating Segments

The Corporation determines its operating segments based on internal information reviewed by the Board of Directors to allocate resources and assess performance. The Corporation's reportable operating segments, as determined by management, are strategic operating units that offer different products and services. The accounting policies for each reportable segment are the same as those described in Note 3 of High Arctic's consolidated financial statements for the year ended December 31, 2016. The Corporation operates in two geographic areas and four operating segments as follows:

Drilling Services

This segment currently consists of the Corporation's drilling services provided in PNG.

Production Services

This segment currently consists of the Corporation's well servicing and snubbing services provided in Canada.

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Ancillary Services

Ancillary services segment provides rental equipment, nitrogen transport services and engineering consulting to various companies within the oil and gas sector in Canada and PNG.

Corporate

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

Three months ended June 30, 2017	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	28.3	16.8	6.8	-	(0.8)	51.1
Expenses						
Oilfield Services	16.1	14.4	2.7	-	(0.8)	32.4
General and administrative	1.4	1.7	0.4	0.9	-	4.4
Depreciation	2.5	2.4	1.6	-	-	6.5
Share-based compensation	-	-	-	-	-	-
	20.0	18.5	4.7	0.9	(0.8)	43.3
	8.3	(1.7)	2.1	(0.9)	-	7.8
Foreign exchange gain	-	-	-	(0.2)	-	(0.2)
Gain on sale of assets	-	-	-	-	-	-
Interest and finance expense	-	-	-	0.3	-	0.3
Earnings (losses) before income tax	8.3	(1.7)	2.1	(1.0)	-	7.7
Property and equipment	75.0	85.5	36.3	0.2	-	197.0
Total assets less deferred tax assets	128.5	96.8	45.1	3.4	-	273.8

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Three months ended June 30, 2016	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	33.9	3.6	6.0	-	-	43.5
Expenses						
Oilfield Services	21.5	2.9	1.0	-	-	25.4
General and administrative	1.2	0.8	0.2	0.8	-	3.0
Depreciation	2.4	1.1	1.9	-	-	5.4
Share-based compensation	-	-	-	0.3	-	0.3
	25.1	4.8	3.1	1.1	-	34.1
	8.8	(1.2)	2.9	(1.1)	-	9.4
Foreign exchange loss	-	-	-	0.1	-	0.1
Gain on sale of assets	-	-	-	-	-	-
Interest and finance expense	-	-	-	0.1	-	0.1
Earnings (losses) before income tax	8.8	(1.2)	2.9	(1.3)	-	9.2
Property and equipment	84.4	29.1	38.0	0.1	-	151.6
Total assets less deferred tax assets	142.6	32.6	43.2	12.8	-	231.2
Six months ended June 30, 2017	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	62.6	39.3	15.6	-	(1.6)	115.9
Expenses						
Oilfield Services	34.7	33.1	5.5	-	(1.6)	71.7
General and administrative	2.5	3.2	0.9	2.3	-	8.9
Depreciation	5.0	4.7	3.2	-	-	12.9
Share-based compensation	-	-	-	0.1	-	0.1
	42.2	41.0	9.6	2.4	(1.6)	93.6
	20.4	(1.7)	6.0	(2.4)	-	22.3
Foreign exchange gain	-	-	-	(0.3)	-	(0.3)
Gain on sale of assets	-	-	-	-	-	-
Interest and finance expense	-	-	-	0.7	-	0.7
Earnings (losses) before income tax	20.4	(1.7)	6.0	(2.8)	-	21.9
Property and equipment	75.0	85.5	36.3	0.2	-	197.0
Total assets less deferred tax assets	128.5	96.8	45.1	3.4	-	273.8

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Six months ended June 30, 2016	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	74.9	8.3	15.0	-	-	98.2
Expenses						
Oilfield Services	45.8	5.7	3.1	-	-	54.6
General and administrative	2.9	1.6	0.6	1.6	-	6.7
Depreciation	4.8	2.1	4.3	-	-	11.2
Share-based compensation	-	-	-	0.6	-	0.6
	53.5	9.4	8.0	2.2	-	73.1
	21.4	(1.1)	7.0	(2.2)	-	25.1
Foreign exchange loss	-	-	-	0.4	-	0.4
Gain on sale of assets	-	(0.1)	-	-	-	(0.1)
Interest and finance expense	-	-	-	0.2	-	0.2
Earnings (losses) before income tax	21.4	(1.0)	7.0	(2.8)	-	24.6
Property and equipment	84.4	29.1	38.0	0.1	-	151.6
Total assets less deferred tax assets	142.6	32.6	43.2	12.8	-	231.2

2017	PNG	Canada	Inter- Segment Elimination	Total
Revenue for the three months ended June 30, 2017	32.1	19.0	-	51.1
Revenue for the six months ended June 30, 2017	71.5	44.4	-	115.9
Total assets less deferred tax assets	159.3	119.9	-	279.2

2016	PNG	Canada	Inter- Segment Elimination	Total
Revenue for the three months ended June 30, 2016	38.6	4.9	-	43.5
Revenue for the six months ended June 30, 2016	86.8	11.4	-	98.2
Total assets less deferred tax assets	175.3	55.9	-	231.2