

# **HIGH ARCTIC ENERGY SERVICES INC.**



## **CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**



## *Independent auditor's report*

To the Shareholders of High Arctic Energy Services Inc.

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### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of High Arctic Energy Services Inc. and its subsidiaries (together, the "Company") as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

#### **What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of earnings and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

#### **Independence**

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

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### *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of management and those charged with governance for the consolidated financial statements*

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

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

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

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from



error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. The engagement partner on the audit resulting in this independent auditor's report is Courtney Kolla.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Calgary, Alberta  
March 14, 2019

# High Arctic Energy Services Inc.

## Consolidated Statements of Earnings and Comprehensive Income

For the years ended December 31, 2018 and 2017

Canadian \$ Million

	Notes	December 31, 2018	December 31, 2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		31.5	22.1
Accounts receivable	6	36.5	40.4
Short term investments	7	1.0	2.4
Inventory	8	10.6	10.0
Income taxes receivable		0.0	1.3
Prepaid expenses		0.8	0.9
		<u>80.4</u>	<u>77.1</u>
<b>Non-current assets</b>			
Property and equipment	10	184.4	182.9
Deferred tax asset	19	7.6	7.0
		<u>192.0</u>	<u>190.0</u>
<b>Total assets</b>		<b><u>272.4</u></b>	<b><u>267.0</u></b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	11	21.6	21.5
Dividend payable	15	0.8	0.9
Current portion of deferred revenue		0.2	1.0
Contingent Liability	12	1.0	-
		<u>23.6</u>	<u>23.4</u>
<b>Non-current liabilities</b>			
Finance lease obligation	13	0.5	0.5
Unfavourable lease liability	14	2.8	3.1
Deferred tax liability	19	11.3	9.2
		<u>14.6</u>	<u>12.8</u>
<b>Total liabilities</b>		<b><u>38.2</u></b>	<b><u>36.2</u></b>
<b>Shareholders' equity</b>	17	<b><u>234.2</u></b>	<b><u>230.8</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>272.4</u></b>	<b><u>267.0</u></b>
Commitments and contingencies	26		

See accompanying notes to these consolidated financial statements.

**Approved on behalf of the Corporation by:**

(signed) "Doug Strong" Director

(signed) "Michael Binnion" Director

# High Arctic Energy Services Inc.

## Consolidated Statements of Financial Position

For the years ended December 31, 2018 and 2017

Canadian \$ Million, except per share amounts

		2018	2017
	<b>Notes</b>		
<b>Revenue</b>	20	203.3	210.2
<b>Expenses</b>			
Oilfield services	21	135.5	134.8
General and administration	21	17.0	17.1
Depreciation	10	25.7	25.9
Share-based compensation	18	1.4	0.7
		179.6	178.5
<b>Operating earnings</b>		<b>23.7</b>	<b>31.7</b>
Foreign exchange loss (gain)		0.8	(0.7)
Gain on sale of property and equipment		(0.1)	-
Interest and finance expense		0.6	1.0
<b>Net earnings before income taxes</b>		<b>22.4</b>	<b>31.4</b>
Current income tax expense	19	12.9	11.9
Deferred income tax expense (recovery)	19	(1.9)	(0.8)
		11.0	11.1
<b>Net earnings for the year</b>		<b>11.4</b>	<b>20.3</b>
<b>Earnings per share:</b>	17		
Basic		0.22	0.38
Diluted		0.22	0.38
		2018	2017
<b>Net earnings for the year</b>		11.4	20.3
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified subsequently to net income:</b>			
Foreign currency translation gains (losses) for foreign operations		11.7	(9.5)
<b>Items that may not be reclassified subsequently to net income:</b>			
Losses on short term investments, net of tax (note 7)		(1.4)	(0.6)
<b>Comprehensive income for the year</b>		<b>21.7</b>	<b>10.2</b>

See accompanying notes to these consolidated financial statements.

# High Arctic Energy Services Inc.

## Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

Canadian \$ Million

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
<b>Balance at January 1, 2018</b>		186.1	9.4	18.5	16.8	230.8
Net earnings		-	-	-	11.4	11.4
Dividends	15	-	-	-	(10.3)	(10.3)
Other comprehensive income - foreign currency translation gain		-	-	11.7	-	11.7
Other comprehensive income - loss on short term investments	7	-	-	(1.4)	-	(1.4)
Purchase of common shares for cancellation	17	(8.7)	(0.9)	-	-	(9.6)
Share-based payment transactions		0.5	1.1	-	-	1.6
<b>Balance at December 31, 2018</b>		<b>177.9</b>	<b>9.6</b>	<b>28.8</b>	<b>17.9</b>	<b>234.2</b>

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
<b>Balance at January 1, 2017</b>		185.5	9.1	28.6	7.0	230.2
Net earnings		-	-	-	20.3	20.3
Dividends	15	-	-	-	(10.5)	(10.5)
Other comprehensive income - foreign currency translation loss		-	-	(9.5)	-	(9.5)
Other comprehensive income - loss on short term investments	7	-	-	(0.6)	-	(0.6)
Share-based payment transactions		0.6	0.3	-	-	0.9
<b>Balance at December 31, 2017</b>		<b>186.1</b>	<b>9.4</b>	<b>18.5</b>	<b>16.8</b>	<b>230.8</b>

See accompanying notes to these consolidated financial statements.

# High Arctic Energy Services Inc.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

Canadian \$ Million

		2018	2017
	Notes		
<b>Net earnings for the year</b>		11.4	20.3
<b>Adjustments for:</b>			
Depreciation	10	25.7	25.9
Provision for unfavourable lease	14	(0.4)	(0.4)
Share-based compensation	18	1.4	0.7
Gain on sale of property and equipment		(0.1)	-
Foreign exchange loss (gain)		0.8	(0.5)
Deferred income tax recovery	19	(2.0)	(0.8)
		36.8	45.2
Net changes in items of working capital	25	5.3	(10.9)
<b>Net cash generated from operating activities</b>		<b>42.1</b>	<b>34.3</b>
<b>Investing activities</b>			
Additions of property and equipment	10	(9.8)	(6.8)
Business acquisition	9	(8.0)	-
Disposal of short term investments		-	1.8
Disposal of property and equipment	10	3.4	1.0
Net changes in items of working capital	25	0.8	0.8
<b>Net cash used in investing activities</b>		<b>(13.6)</b>	<b>(3.2)</b>
<b>Financing activities</b>			
Long-term debt proceeds	16	4.8	11.7
Long-term debt repayments	16	(4.8)	(35.7)
Dividend payments	15	(10.3)	(10.5)
Purchase of common shares for cancellation	17	(9.8)	-
Issuance of common shares, net of costs	17	0.4	0.3
Finance lease obligation payments	13	(1.0)	(0.7)
<b>Net cash used in investing activities</b>		<b>(20.7)</b>	<b>(34.9)</b>
<b>Effect of exchange rate changes</b>		<b>1.6</b>	<b>(1.4)</b>
<b>Net change in cash and cash equivalents</b>		<b>9.4</b>	<b>(5.2)</b>
<b>Cash and cash equivalents - beginning of year</b>		<b>22.1</b>	<b>27.3</b>
<b>Cash and cash equivalents - end of year</b>		<b>31.5</b>	<b>22.1</b>
<b>Cash paid for:</b>			
Interest		0.6	1.1
Income taxes		11.3	12.5

See accompanying notes to these consolidated financial statement



# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Canadian \$ Million

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### 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 – 2<sup>nd</sup> Street S.W. Suite 500, Calgary, Alberta, Canada, T2P 2W1. High Arctic's business is to provide contract drilling, production and completion services, equipment rentals and other oilfield services to the oil and natural gas industry in Papua New Guinea ("PNG"), the United States and Canada.

As of December 31, 2018, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L. representing 43.0% of the outstanding common shares.

### 2 Basis of Preparation

The consolidated financial statements ("Financial Statements") of the Corporation have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The Financial Statements of High Arctic for the year ended December 31, 2018 were approved by the Board of Directors on March 14, 2019.

### 3 Significant Accounting Policies

#### Basis of measurement

These Financial Statements have been prepared on the historical cost basis except as noted below.

#### Principles of consolidation

The Financial Statements include the accounts of High Arctic and its subsidiaries, all of which are wholly-owned. Intercompany balances and transactions, including unrealized gains or losses between subsidiaries are eliminated on consolidation.

#### Business Combinations

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

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

#### Foreign currency

##### a) Functional and presentation currency:

Items included in the Financial Statements of each consolidated entity of the Corporation are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Canadian \$ Million

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b) Foreign operations:

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

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

All changes resulting from applying the closing rate to the assets and liabilities of foreign operations are recognized in other comprehensive income as cumulative translation adjustments.

c) Transactions and balances:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statement of earnings.

### Cash and cash equivalents

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

### Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

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

### Initial measurement of financial instruments

The Corporation classifies and measures financial assets and liabilities on initial recognition as described below:

a) Cash and cash equivalents

Cash and cash equivalents include cash and term deposits and are classified as financial assets at fair value through profit or 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.

b) Trade and other receivables

Trade and other receivables are classified as assets at amortized cost and are measured using the effective interest method, less impairment allowance, if any, where the financial assets are supported by the Corporation's business model to hold to collect and where the financial assets are considered to consist solely of payments of principal and interest.

c) Equity investments

All of the Corporation's equity investments are initially recognized at fair value and classified into the following categories: fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVTOCI"). Both realized and unrealized gains and losses on FVTOCI equity investments are recognized in OCI.

Dividends from such investments are recognized in profit or loss as other income when the Corporation's right to receive payments is established.

d) Debt investments

All of the Corporation's debt investments are initially recognized at fair value and classified into the following categories: FVTPL or FVTOCI. The amounts recognized in OCI for FVTOCI debt investments are charged to earnings when the asset is derecognized.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Canadian \$ Million

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Interest from such investments are recognized in profit or loss as other income when the Corporation's right to receive payments is established.

e) **Financial liabilities**

Financial liabilities are initially recognized at fair value when the outflow of economic benefit is probable and costs of the obligation can be measured reliably. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and since the Corporation does not have any financial liabilities designated at fair value through profit or loss, the adoption of IFRS 9 did not impact our accounting policies for financial liabilities.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through earnings or loss or other liabilities. The Corporation determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and loans and borrowings include directly attributable transaction costs. Items classified as other financial liabilities on the Corporation's financial statements are accounted for at amortized cost using the effective interest method. Any gains or losses in the realization of other financial liabilities are included in earnings. The fair value of accounts payable, accrued liabilities and dividends payable approximate their carrying values due to the short-term nature of these instruments. The long-term debt is recorded initially at fair value, net of transaction costs incurred.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise they are presented as non-current liabilities.

### **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of earnings during the period in which they are incurred. Depreciation is calculated on the depreciable amount which is the carrying cost of an asset less its residual value.

Depreciation is recognized in the statement of earnings using various methods over the estimated useful lives of certain assets.

The Corporation allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates separately each such component. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate. Land is not depreciated.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of earnings.

### **Inventory**

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

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

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Canadian \$ Million

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### **Impairment of financial assets**

The Corporation's trade and lease receivables are subject to the expected credit loss model under IFRS 9. For trade and lease receivables, the Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the lifetime expected loss provision, the Corporation considered historical industry default rates as well as credit ratings of specific customers.

### **Impairment of non-financial assets**

At each reporting date, property and equipment are assessed for impairment. If necessary, impairment is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount for an individual asset is determined as the higher of its fair value less costs of disposal of the asset and the asset's value in use.

Should the recoverable amount not be determinable on an individual asset basis, it is estimated for groups of assets by determining the recoverable amount of the group of assets. This is done by determining the value of the discounted cash inflows less the discounted cash outflows of the group of assets. For the purposes of assessing impairment on groups of assets, the individual assets are grouped together into cash generating units ("CGUs"). Such CGUs represent the lowest level for which there are separately identifiable cash inflows.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of earnings so as to reduce the carrying amount to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of earnings.

### **Employee benefits**

#### **a) Defined contribution pension plan:**

A defined contribution pension plan is a pension plan under which the Corporation pays fixed contributions into a separate entity. Amounts are recognized as a liability and expense in accordance with the fixed contribution terms. The Corporation has no legal or constructive obligations relating to future payments to employees.

#### **b) Bonus plans:**

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

#### **c) Share-based plans:**

##### *Stock Option Plan*

The Corporation has a stock option plan that provides incentive for directors, management and certain employees. Options granted are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of stock options are set out in the share-based compensation note.

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

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

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Canadian \$ Million

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### *Executive and Director Share Incentive Plan*

The Corporation has an Executive and Director Share Incentive Plan under which common shares may be issued to directors and executives. A share-based compensation amount for the common shares issued under the plan is measured as the number of common shares multiplied by the trading price of the Corporation's shares at the time of the grant and that amount is amortized over the vesting period. Each vesting period is treated as a separate tranche for measurement of the non-cash share-based compensation expense. The share-based compensation for each tranche is expensed based on the vesting date for that tranche resulting in a proportionally greater amount being recognized in the earlier periods.

### *Cash Settled Restricted Share Units*

The Corporation has awarded Cash Settled Restricted Share Units ("CSRSUs") to certain employees of the Corporation. Each CSRSU carries the right to a cash payment based upon the trading price of the common shares when exercised.

The CSRSUs are treated as cash-settled share-based compensation and a compensation expense is recognized over the vesting period using fair values with a corresponding increase or decrease in liabilities. The liability is remeasured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as share-based compensation expense in the statement of income.

### *Deferred Share Units:*

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

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

### *Performance Share Unit Plan:*

The Corporation has a Performance Share Unit Plan ("PSUP") under which the Corporation may grant restricted share units ("RSUs") and performance share units ("PSUs") to its employees. Under the terms of the PSUP, certain vesting criteria may be applied to share units granted. The Corporation intends to grant share units which have performance vesting conditions, referred to as Performance Share Units ("PSUs") and other units which, unless otherwise directed by the Board of Directors, vest one third on each of the first, second and third anniversaries from the date of the grant, referred to as Restricted Share Units ("RSUs"). The fair value of the RSUs and PSUs issued is equal to the Corporation's five day weighed average share price on the grant date. The fair value is expensed over the vesting term on a graded vesting basis.

PSU and RSU holders are also entitled to dividends and on any date a cash dividend is paid on the Corporation's common shares, and will be credited with a dividend equivalent in the form of a number of PSUs or RSUs calculated by multiplying the amount of the dividend per common share by the aggregate number of PSUs or RSUs that were credited to the participant's account as of the record date for payment of the dividend, and dividing that amount by the fair market value on the date on which the dividend is paid.

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

## **Provisions**

Provisions for legal claims and other obligations, where applicable, are recognized in accrued liabilities when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

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The Corporation is involved in a limited number of legal claims associated with the normal course of operations. The Corporation believes that any liabilities that may arise from such matters, to the extent not provided for, are not likely to have a material effect on the Consolidated Financial Statements.

### Revenue recognition

Effective January 1, 2018, upon adoption of *IFRS 15 Revenue from Contracts with Customers*, revenue is measured based on the consideration specified in a contract with a customer based upon an agreed transaction price with a customer. The Corporation's revenue is primarily generated from short term or spot market contracts. Long term contracts are those with a term greater than one year. Revenue from the rendering of services is recognized as the Corporation satisfies its performance obligations in contracts with customers, which is generally over time, as the Corporation provides its services on a per billable day or hourly basis.

A portion of the Corporation's revenue is lease revenue and not within the scope of IFRS 15 as a portion of the revenue received represents the customer's ability to direct the use of the Corporation's asset. The Corporation has applied judgement to determine the amount of revenue that relates to lease revenue when lease rates were not specifically identified in contracts based on an expected cost-plus margin.

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

Prior to January 1, 2018, the Corporation's accounting policy with respect to revenue recognition was as follows:

Revenue is measured at the fair value of the consideration received or receivable, net of discounts, and after eliminating intercompany sales. The Corporation bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue from the rendering of services is recognized as services are provided when the following criteria are met: i) the amount of revenue can be measured reliably; ii) the receipt of economic benefits is probable; and iii) costs incurred and to be incurred can be measured reliably. The Corporation may receive payments from its customers for services yet to be rendered. As service is provided to the customer and the Corporation incurs expenses the Corporation recognizes revenue for the value of the service provided to that point in time.

### Interest and finance costs

Interest and finance costs are comprised of interest payable on borrowings calculated using the effective interest rate method.

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

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

### Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of earnings on a straight-line basis over the period of the lease.

### Income tax

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

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

# High Arctic Energy Services Inc.

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Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

### Share capital

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

### Dividends

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

### Earnings per share

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net earnings or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise restricted incentive shares and share options granted to employees.

### Segment reporting

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

The Corporation determines its operating segments based on internal information regularly reviewed by the Corporation's chief operating decision makers to allocate resources and assess performance. The Corporation has determined that it has four reporting operating segments: drilling services, production services, ancillary services and corporate.

## 4 Changes in Accounting Policies

### New standards adopted:

#### Impact of Adoption of IFRS 15

The Corporation has adopted, as of January 1, 2018, all the requirements of IFRS 15, *Revenue from Contracts with Customers* replacing IAS 11, *Construction Contracts*, IAS 18, *Revenue* and several revenue related interpretations. The Corporation has elected to adopt the standard using the modified retrospective approach, which requires the cumulative effect of adopting IFRS 15 to be recognized in retained earnings as of January 1, 2018. Adoption of this standard did not result in a cumulative adjustment as there is no change to the timing or amount of revenue recognition under the new policy. The main area of change is the additional disclosure requirements.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

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### **New standards not yet adopted:**

#### **IFRS 16 - Leases**

IFRS 16, Leases, was issued in January 2016 and replaces the previous guidance on leases, including IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a lease*. The standard provides a single recognition and measurement model to be applied to leases, with required recognition of asset and liabilities for most leases. The new standard is effective for annual periods beginning on or after January 1, 2019.

IFRS 16 brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. A right-of-use asset and corresponding liability will be recognized for all leases by the lessee except for short-term leases and leases of low value assets.

The adoption of IFRS 16 is expected to have an impact on the Financial Statements, as the Corporation's assessment indicates that many of the operating lease arrangements will meet the definition of a lease under IFRS 16 and thus be recognized in the Statement of Financial Position as a right-of-use asset with a corresponding liability. In addition, the nature of expenses related to these arrangements will change as the Corporation will be required to disclose the depreciation relating to the right-of-use assets and interest relating to the lease obligations separately in the notes to the Financial Statements. Also, the classification of cash flows will be impacted as the current presentation of lease payments as operating cash flows will be split into financing (principal portion) and operating (interest portion) cash flows under IFRS 16.

Lessor accounting will not significantly change under the new standard. However, some differences may arise as a result of new guidance on the definition of a lease. Under IFRS 16 a contract is, or contains a lease, if the contract conveys control of the use of an identified asset for a period of time in exchange for some form of consideration. The Corporation is assessing whether this new guidance will impact the treatment of current contracts for its international drilling rigs.

On initial adoption, the Corporation will use the modified retrospective transition approach, as well will elect to use the following practical expedients permitted under the standard:

- (a) Apply a single discount rate to a portfolio of leases with similar characteristics;
- (b) Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases; and
- (c) Account for lease payments as an expense and not recognize a right-of-use ("ROU") asset if the underlying asset is of low dollar value.

The Corporation is finalizing its assessment of the standard and anticipates IFRS 16 will result in a material right-of-use asset and lease liability recorded on the balance sheet.

## **5 Critical Accounting Estimates and Judgements**

The preparation of the Corporation's Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities as at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. The accounting policies and practices that involve the use of estimates and judgments that have a significant impact on the Corporation's financial results include the allowance for doubtful accounts, depreciation, impairment of property and equipment, income taxes and share-based compensation.

#### **Allowance for doubtful accounts**

The Corporation estimates the amount of expected credit losses for trade receivables with no financing component using a provision matrix. The provision matrix is based on historical loss experience and is adjusted for forward looking estimates based on current and future economic conditions.



# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

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

### 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. All equipment is depreciated based on the straight-line method over the asset's useful life in years.

The estimated useful lives are as follows:

	Expected Life	Salvage Value	Basis of Depreciation
Oilfield Equipment:			
Drilling rigs	5 - 15 years	Up to 10%	Straight line
Service rigs	5 - 20 years	Up to 10%	Straight line
Support and shop	7 - 10 years	Up to 5%	Straight line
Drilling support	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

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.

### 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. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to dispose and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). Estimates of future cash flows used in the evaluation of impairment of assets are made using management's current operating forecasts, utilization rates, rates and costs of available equipment (margin), terminal values and discount rates. An impairment loss is recognized for the amount by which the asset or CGUs carrying amount exceeds its expected recoverable amount.

### Income taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. The Corporation's calculation of income taxes involves many complex factors as well as the Corporation's interpretation of relevant tax legislation and regulations and estimations of future taxable profits. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. The Corporation has losses that currently exceed near term profit expectations, as a result, the full benefit has not been recognized. Deferred tax assets are reviewed at each reporting date and are increased or reduced depending on the probability that the related tax benefit will be realized.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

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### **Share-based compensation**

The fair value of stock options is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, dividend yield, estimated forfeitures and estimated volatility of the Corporation's shares. The fair value of the shares under the Executive and Directors Share Incentive Plan are recognized based on the market value of the Corporation's shares on the grant date, the vesting period of the plan and the estimated forfeitures. The fair value of Restricted Stock Units is estimated based on the market value of the Corporation's shares at the balance sheet date.

### **Business acquisition**

In accordance with IFRS 3, the Corporation measures the assets, liabilities and contingent liabilities acquired through a business combination at fair value. Where possible, fair value adjustments are based on external appraisals or valuation models. The Corporation is often required to make judgements and estimates in relation to the fair value allocation of the purchase price. Changes in any of these judgements or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill (or gain from a bargain purchase) in the acquisition equation. If any unallocated portion is positive, it is recognized as goodwill and if negative, it is recognized as a gain in the statement of earnings.

### **Critical accounting judgments**

Significant judgments are used in the application of accounting policies that have been identified as being complex and involving subjective judgments and assessments.

### **Identification of Cash-Generating Units**

CGUs are defined as the lowest level of integrated assets for which there are separately identifiable cash flows that are largely independent of cash flows from other assets or groups of assets. The classification of assets and allocation of corporate assets in CGUs requires significant judgement and interpretation. Factors considered in the classification include the integration between assets, shared infrastructures, the existence of common sales points, geography, geologic structure and the manner in which Management monitors and makes decisions about its operations. The recoverability of the Corporation's assets is assessed at the CGU level. As such, the determination of a CGU could have a significant impact on impairment and losses and reversals.

### **Functional currency**

The determination of functional currency is based on the primary economic environment (including monetary policy) in which an entity operates. The functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Factors that the Corporation considers when determining the functional currency of its subsidiaries include: (i) the currency that the delivery of goods and services are contracted in, (ii) the currency used to conduct business in the region, (iii) the currency that mainly influences labour, material and other costs of providing goods or services, (iv) the currency in which receipts from operating activities are usually retained in. When the indicators are mixed and the functional currency of an entity is not obvious, management uses its judgment to determine the functional currency that most appropriately represents the economic effects of the underlying transactions, events and conditions. Judgment was applied in determining the functional currency of the operations in PNG to be US dollars due to all existing rig contracts negotiated and settled in US dollars, as well as majority of the expenses quoted and paid in US dollars, including lease expenses.

# High Arctic Energy Services Inc.

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### 6 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 credit loss provision for all trade receivables.

	December 31, 2018	December 31, 2017
Less than 31 days	17.4	18.0
31 to 60 days	11.3	13.7
61 to 90 days	5.0	5.7
Greater than 90 days	2.9	3.1
Allowance for doubtful accounts	(0.1)	(0.1)
<b>Total</b>	<b>36.5</b>	<b>40.4</b>

The Corporations accounts receivable are dominated in the following currencies:

Canadian dollar	15.7	16.1
United States dollar (2018 - US \$15.4; 2017 - US \$19.4)	20.8	24.3
<b>Total</b>	<b>36.5</b>	<b>40.4</b>

High Arctic determined the loss 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. The expected credit losses also incorporate forward looking information.

Total receivable	Less than 31 days	31 to 60 days	61-90 days	Over 90 days	Total
Investment grade receivables	14.1	8.7	4.3	2.5	29.6
Non-investment grade receivables	3.3	2.6	0.7	0.4	7.0
<b>Total receivables</b>	<b>17.4</b>	<b>11.3</b>	<b>5.0</b>	<b>2.9</b>	<b>36.6</b>
Expected credit loss for investment grade	0.04%	0.06%	0.10%	0.30%	0.50%
Expected credit loss for non-investment grade	0.75%	1.00%	2.00%	4.00%	7.75%
Investment grade expected credit loss provision	(0.01)	(0.00)	(0.00)	(0.01)	(0.02)
Non-investment grade expected credit loss provision	(0.02)	(0.03)	(0.02)	(0.01)	(0.08)
<b>Total allowance for doubtful accounts</b>	<b>(0.03)</b>	<b>(0.03)</b>	<b>(0.02)</b>	<b>(0.02)</b>	<b>(0.10)</b>

### 7 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 December 31, 2018, the investments are presented at a fair value of \$1.0 million (December 31, 2017 - \$2.4 million). The difference in fair value of \$1.4 million has been included in other comprehensive income.

Short term investments consist of the following:

	December 31, 2018	December 31, 2017
Investments in equity securities	1.0	2.4
<b>Total</b>	<b>1.0</b>	<b>2.4</b>

# High Arctic Energy Services Inc.

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### 8 Inventory

As at December 31, 2018 the Corporation had inventory of \$10.6 million (December 31, 2017 - \$10.0 million), which is primarily comprised of parts and materials related to maintenance, recertification and refurbishment of rigs and rig-related equipment. During the year ended December 31, 2018, the Corporation did not recognize an impairment on inventory items (2017 – nil).

### 9 Business Acquisitions

#### Power Energy Holdings Ltd.

On August 16<sup>th</sup>, High Arctic acquired the shares of Power Energy Holdings Ltd (“PEHL”) which wholly owns Powerstroke Well Control Ltd and Powerstroke Well Control Inc (collectively “Powerstroke”). Powerstroke is a well service company, currently operating a total of eight snubbing units and a heavy capacity new build service rig and drilling package within Canada as well as the United States. This strategic business acquisition establishes an entry into the United States for High Arctic, where it plans on expanding its well service offering.

High Arctic acquired the shares in PEHL by payment of cash in the amount of \$7.0 million, after working capital adjustments. Included in the share purchase agreement is \$1.0 million of contingent consideration related to a potential earn-out payment due in 2019, dependent on future performance. The potential undiscounted amount of all future payments that High Arctic could be required to make under this arrangement is between nil and \$1.0 million.

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 final purchase price allocation is based on Management's best estimate of fair value and has been retrospectively adjusted to reflect new information obtained between August 16, 2018 and December 31, 2018 about conditions that existed at the acquisition date. As a result of these adjustments, the final purchase price allocation includes a decrease of \$1.3 million in property and equipment offset by a \$1.3 million decrease in deferred tax liability. The following table summarizes the allocation of the purchase price:

Cash consideration, after working capital adjustments	7.0
Contingent consideration	1.0
<b>Total consideration</b>	<b>8.0</b>
Working capital	(1.5)
Deferred tax liability	(2.6)
Property and equipment	12.1
<b>Fair value of net assets acquired</b>	<b>8.0</b>

The net cash movement was included in business acquisitions in the consolidated statement of cash flow for the year ended December 31, 2018 as total cash paid of \$7.0 million, which is the total amount of cash paid upon closing the acquisition, after working capital adjustments.

Subsequent to the acquisition date, Powerstroke's operating results have been included in the Corporation's revenues, expenses and capital spending. From the date of acquisition on August 16, 2018, Powerstroke contributed an estimated \$2.7 million of revenue and incurred \$1.0 million in loss before tax for the Corporation. If the business combination had been completed on January 1, 2018 the Corporation's estimated revenue and net earnings before tax for the year ended December 31, 2018 would have been \$209.6 million and \$21.4 million respectively. The estimated pro forma revenue and net earnings before tax have been adjusted as if the acquisition occurred on January 1, 2018, primarily reflecting the depreciation under the Corporation's accounting policies.

# High Arctic Energy Services Inc.

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This pro forma information is not necessarily indicative of the results that would have been achieved had the business combination been completed on January 1, 2018, or the results that may occur in the future.

During the year ended December 31, 2018, High Arctic incurred \$0.1 million of expenses related to the acquisition of PEHL shares which are recognized as an expense in the statement of earnings and comprehensive income. These costs relate mainly to advisory and legal fees and were included in other expenses on the consolidated statements of earnings and comprehensive income.

Contingent consideration is considered a financial liability under IFRS and, as such is revalued at each period end. High Arctic assessed the fair value of the contingent consideration using a discounted future cash flow model.

### **Saddle Well Services Inc.**

On August 16th, 2018, High Arctic acquired the assets of Saddle Well Services Inc by payment of cash in the amount of \$1.2 million. Through this acquisition High Arctic acquired equipment that is complementary to its existing well servicing fleet.

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 consideration of \$1.2 million has all been allocated to equipment.

Subsequent to the acquisition date, the operating results of Saddle Well Services have been included in the Corporation's revenues, expenses and capital spending. From the date of acquisition on August 16, 2018, Saddle Well Services contributed an estimated \$0.7 million of revenue and \$0.1 million of net earnings before tax for the Corporation. If the business combination had been completed on January 1, 2018 the Corporation's estimated revenue and net earnings before tax for the year ended December 31, 2018 would have been \$202.8 million and \$22.6 million respectively. The estimated pro forma revenue and net earnings before tax have been adjusted as if the acquisition occurred on January 1, 2018, primarily reflecting the depreciation under the Corporation's accounting policies. This pro forma information is not necessarily indicative of the results that would have been achieved had the business combination been completed on January 1, 2018, or the results that may occur in the future.

# High Arctic Energy Services Inc.

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### 10 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, 2018 and year ended December 31, 2017.

<b>Cost:</b>	<b>Vehicles</b>	<b>Oilfield Equipment</b>	<b>Computer and office equipment</b>	<b>Land &amp; Building</b>	<b>Work-in-progress</b>	<b>Total</b>
<b>Balance, January 1, 2017</b>	<b>13.6</b>	<b>325.8</b>	<b>3.0</b>	<b>13.3</b>	<b>1.4</b>	<b>357.1</b>
Additions	-	-	-	-	6.8	6.8
Finance lease obligation (note 13)	0.7	-	-	-	-	0.7
Disposals	(3.3)	(5.4)	-	-	-	(8.7)
Transfers	0.2	5.9	0.2	-	(6.3)	-
Effect of foreign exchange	(0.1)	(11.8)	-	-	-	(11.9)
<b>Balance, December 31, 2017</b>	<b>11.1</b>	<b>314.5</b>	<b>3.2</b>	<b>13.3</b>	<b>1.9</b>	<b>344.0</b>
Additions	-	-	-	-	9.8	9.8
Acquisitions	-	13.4	-	-	-	13.4
Disposals	(0.9)	(1.3)	-	(2.5)	-	(4.7)
Transfers	0.1	7.6	0.3	-	(8.0)	-
Effect of foreign exchange	-	14.8	-	-	-	14.8
<b>Balance, December 31, 2018</b>	<b>10.3</b>	<b>349.0</b>	<b>3.5</b>	<b>10.8</b>	<b>3.7</b>	<b>377.3</b>

<b>Accumulated depreciation and impairments:</b>	<b>Vehicles</b>	<b>Oilfield Equipment</b>	<b>Computer and office equipment</b>	<b>Land &amp; Building</b>	<b>Work-in-progress</b>	<b>Total</b>
<b>Balance, January 1, 2017</b>	<b>9.5</b>	<b>135.6</b>	<b>2.4</b>	<b>0.4</b>	<b>-</b>	<b>147.9</b>
Depreciation for the year	1.2	23.8	0.5	0.4	-	25.9
Disposals	(3.1)	(4.6)	-	-	-	(7.7)
Effect of foreign exchange	(0.1)	(4.9)	-	-	-	(5.0)
<b>Balance, December 31, 2017</b>	<b>7.5</b>	<b>149.9</b>	<b>2.9</b>	<b>0.8</b>	<b>-</b>	<b>161.1</b>
Depreciation for the year	0.8	24.4	0.2	0.3	-	25.7
Disposals	(0.6)	(0.6)	-	(0.1)	-	(1.3)
Effect of foreign exchange	-	7.4	-	-	-	7.4
<b>Balance, December 31, 2018</b>	<b>7.7</b>	<b>181.1</b>	<b>3.1</b>	<b>1.0</b>	<b>-</b>	<b>192.9</b>

#### Carrying amounts of property and equipment:

<b>At December 31, 2017</b>	<b>3.6</b>	<b>164.6</b>	<b>0.3</b>	<b>12.5</b>	<b>1.9</b>	<b>182.9</b>
<b>At December 31, 2018</b>	<b>2.6</b>	<b>167.9</b>	<b>0.4</b>	<b>9.8</b>	<b>3.7</b>	<b>184.4</b>

During 2018, the Corporation sold land, building and equipment for net cash proceeds of \$3.4 million.

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### 11 Accounts Payable and Accrued Liabilities

	December 31, 2018	December 31, 2017
Accounts payable	10.9	5.4
Accrued liabilities	7.0	11.0
Accrued payroll	2.0	2.6
Income taxes payable	1.0	0.7
Current portion - finance lease obligation	0.2	1.2
Current portion - Unfavourable lease liability	0.5	0.6
<b>Total</b>	<b>21.6</b>	<b>21.5</b>

### 12 Contingent Liability

For the year ended December 31, 2018, \$1 million is payable under the contingent payment agreement arising from the Powerstroke business acquisition. The amount is to be paid out dependent on a gross profit prescribed target up to a maximum of \$1 million in the third quarter of 2019. The Corporation believes that the targets will be achieved.

### 13 Finance Lease Obligation

During 2017, the Corporation recognized vehicles under a finance lease arrangement with lease terms of three years. As at December 31, 2018, future minimum lease payments totaled \$0.7 million, of which \$0.2 million has been included in the current portion of finance lease obligations as part of accounts payable and accrued liabilities and the remaining \$0.5 million has been disclosed as a non-current liability (December 31, 2017 – \$0.5 million).

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 an 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 2018, the Corporation exercised the option to purchase the leased equipment upon expiry of the lease term for \$0.9 million.

### 14 Unfavourable Lease

In 2016, High Arctic acquired the Production Services Division of Tervita. The acquisition was accounted for as a business combination using the acquisition method of accounting whereby the assets acquired, and the liabilities assumed were recorded at estimated fair value on the acquisition date. The Corporation assumed a real estate lease as part of the Tervita acquisition that was assessed to be unfavourable as the contracted lease rates were unfavourable relative to market rates, resulting in an unfavourable lease liability of \$3.2 million as at December 31, 2018, of which \$0.4 million has been included in the current portion of accounts payable and accrued liabilities and the remaining \$2.8 million has been disclosed as a non-current liability (December 31, 2017 - \$3.1 million).

### 15 Dividend Payable

Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. During the twelve months ended December 31, 2018, the Corporation declared dividends of \$10.3 million (2017 - \$10.5 million), of which \$0.8 million was payable as of December 30, 2018 (December 31, 2017 - \$0.9 million). Since December 31, 2018, a monthly dividend of \$0.0165 per share has been declared for a total of \$0.8 million.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Canadian \$ Million

### 16 Long-Term Debt

In the third quarter of 2018, High Arctic renewed its existing credit facility. As at December 31, 2018, High Arctic's credit facilities consisted of a \$45.0 million revolving loan facility which matures on August 31, 2020. 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 December 31, 2018, no amounts were outstanding on the credit facility (2017 - \$ nil) and total credit available to draw was approximately \$45.0 million.

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

Covenants	Required	December 31, 2018
Funded Debt to EBITDA <sup>(1)</sup>	2.50 : 1 Maximum	0.03 :1
Current Ratio <sup>(2)</sup>	1.25 : 1 Minimum	3.41 :1
Fixed Charge Coverage Ratio <sup>(3)</sup>	1.25 : 1 Minimum	15.06 :1

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

(4) EBITDA for the purposes of calculating the covenants, "covenant EBITDA," is defined as net income plus interest expense, current tax expense, depreciation, amortization, future income tax expense (recovery), share-based compensation expense less gains from foreign exchange and sale or purchase of assets.

There have been no changes to these financial covenants subsequent to December 31, 2018 and the Corporation remains in compliance with the financial covenants under its credit facility as at December 31, 2018.

#### Reconciliation of Liabilities to Cash Flows Arising from Financing Activities

	Short-Term Borrowings	Long-Term Borrowings
As at December 31, 2017		
Proceeds from financing cash flow	-	4.8
Repayments of financing cash flow	-	(4.8)
<b>As at December 31, 2018</b>	<b>-</b>	<b>-</b>



# High Arctic Energy Services Inc.

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For the years ended December 31, 2018 and 2017

Canadian \$ Million

### 17 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:	2018		2017	
	Shares	\$	Shares	\$
Balance, beginning of year	53,331,039	186.0	53,174,369	185.4
Issuance of shares upon exercise of options (note 18)	128,500	0.5	150,070	0.6
Issuance of performance share units (note 18)	3,334	-	-	-
Normal course issuer bid (note 18)	(2,473,862)	(8.7)	-	-
Vested restricted shares (note 18)	20,000	0.1	6,600	-
Common shares outstanding (note 18)	51,009,011	177.9	53,331,039	186.0
Restricted shares outstanding (note 18)	-	-	20,000	0.1
Total common and restricted shares outstanding	51,009,011	177.9	53,351,039	186.1

#### Issuance of Shares

For the twelve months ended December 31, 2018 a total of 128,500 (year ended December 31, 2017 – 150,070) stock options were exercised for shares of the Corporation (see note 18).

#### Normal Course Issuer Bid

On November 15, 2018 the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,700,386 common shares, representing approximately 10 percent of the Corporation's public float, under a Normal Course Issuer Bid ("NCIB"). The NCIB is valid for one year and will expire on November 18, 2019. A total of 246,088 common shares have been purchased and cancelled under this NCIB as at December 31, 2018 at a cost of \$0.8 million.

In September 2017, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,902,733 common shares, representing 5 percent of the Corporation's issued and outstanding common shares under a NCIB. The NCIB commenced on September 19, 2017 and was valid for one year. During the year ended December 31, 2018, the Corporation repurchased and cancelled 2,227,774 common shares under the NCIB at an average price of \$3.94 per share, for a total repurchase cost of \$8.8 million.

The following table summarizes the share repurchase activities during the period:

	2018	2017
Shares repurchased	2,473,862	-
Amounts charged to:		
Share capital	8.7	-
Contributed surplus	0.9	-
<b>Share repurchase cost</b>	<b>9.6</b>	<b>-</b>

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Canadian \$ Million

### (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, RSUs, PSUs, DSUs and the restricted shares issued under the Executive and Director Share Incentive Plan are considered.

	2018		2017	
	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings per share	51,713,059	\$0.22	53,248,232	\$0.38
Dilution effect of options	446,754	-	625,623	-
Weighted average number of common shares used in diluted earnings per share	52,159,813	\$0.22	53,873,855	\$0.38

For the twelve months ended December 31, 2018, 578,000 stock options (2017 - 487,800) were excluded in the calculation of diluted earnings per share as the effect would have been anti-dilutive.

### 18 Share-based Compensation

The Corporation has various equity-based compensation plans under which the Corporation may issue up to 5,100,901 common shares (being 10% of all outstanding shares) as at December 31, 2018. The following table summarizes the Corporation's outstanding grants for each equity-based compensation plan.

	2018	2017
Stock Options	1,343,000	2,020,800
Employee and Director Share Units	-	20,000
Restricted Share Units	174,218	106,269
Performance Share Units	220,330	100,430
Deferred Share Units	159,054	52,541
Balance, end of year	1,896,602	2,300,040
Common shares available for grants	5,100,901	5,335,104
Percentage used of total available	37%	43%
Remaining common shares available for grants	3,204,299	3,035,064

#### Stock Option Plan

The Corporation has a Stock Option Plan under which options to purchase common shares may be granted to directors, management and certain employees. At December 31, 2018, a total of 1,343,000 options are outstanding and expire at various dates up to 2023, at amounts that range from \$3.35 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 2.9 years and 634,000 options are currently vested and eligible to be exercised.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Canadian \$ Million

	Number of Options	Weighted Average Exercise Price \$/Share
<b>Total Outstanding January 1, 2017</b>	1,851,600	4.04
Granted	605,000	3.91
Exercised	(150,070)	3.14
Cancelled / Forfeited	(167,130)	4.27
Expired	(118,600)	5.13
<b>Total Outstanding December 31, 2017</b>	<b>2,020,800</b>	<b>3.99</b>
Granted	345,000	3.74
Exercised	(128,500)	2.85
Cancelled / Forfeited	(249,500)	4.21
Expired	(644,800)	3.39
<b>Total Outstanding December 31, 2018</b>	<b>1,343,000</b>	<b>4.09</b>

The options exercised in 2018 had a weighted average market price of \$3.45 per share on the date of exercise.

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 (\$)
\$3.35 to \$3.71	265,000	2.8	3.51	182,000	3.57
\$3.72 to \$3.75	410,000	4.0	3.75	64,000	3.75
\$3.76 to \$4.39	340,000	3.9	3.84	75,000	3.76
\$4.40 to \$5.31	128,000	1.1	5.17	113,000	5.19
\$5.32 to \$5.32	200,000	0.5	5.32	200,000	5.32
<b>Total Outstanding December 31, 2018</b>	<b>1,343,000</b>	<b>2.9</b>	<b>4.09</b>	<b>634,000</b>	<b>4.45</b>

Share-based compensation associated with stock options 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 year ended December 31, 2018 was \$0.1 million (2017 – \$0.2 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:

	2018	2017
Average fair value per option granted	0.66	0.80
Average expected life (years)	3.66	3.75
Expected volatility (%)	33.81	35.47
Expected forfeiture rate (%)	19.22	16.75
Average risk-free interest rate (%)	1.93	1.74
Expected distribution yield (%)	5.28	5.01

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

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### Performance Share Unit Plan

On May 10, 2017, the Corporation's shareholders approved a Performance Share Unit Plan (the "PSUP"). Under the PSUP the Corporation can grant share units to employees which upon vesting may be settled through the issuance of common shares of the Corporation.

At the discretion of the Board of Directors, certain vesting criteria may be applied to the share units granted. Under the PSUP, the Corporation intends to grant share units which have performance vesting conditions, referred to as Performance Share Units ("PSUs") and other units which, unless otherwise directed by the Board of Directors, vest one third on each of the first, second and third anniversaries from the date of grant, referred to as Restricted Share Units ("RSUs").

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

	RSUs	PSUs	Total
Total Outstanding January 1, 2017	-	-	-
Granted	105,000	99,999	204,999
Reinvested dividends	1,269	431	1,700
Total Outstanding December 31, 2017	<b>106,269</b>	<b>100,430</b>	<b>206,699</b>
Granted	77,500	182,500	260,000
Exercised	-	(26,668)	(26,668)
Cancelled / Forfeited	(17,754)	(45,274)	(63,028)
Reinvested dividends	8,203	9,342	17,545
Total Outstanding December 31, 2018	<b>174,218</b>	<b>220,330</b>	<b>394,548</b>

During the twelve months ended December 31, 2018, 182,500 Performance Share Units ("PSUs") and 77,500 Restricted Share Units ("RSUs") were granted. For the twelve months ended December 31, 2018, the Corporation incurred \$0.7 million of share-based compensation expense (2017 - \$0.2 million) related to the 394,548 units issued under the PSUP and an amount of \$0.6 million remains to be amortized in future periods in respect of the PSUP plan.

### Deferred Share Units

In 2017, the Corporation's shareholders approved a deferred share unit plan (the "DSU") for non-employee members of the Board of Directors. Under the terms of the plan, DSUs awarded will vest immediately and may be settled through the issuance of common shares of the Corporation upon the holder ceasing to serve as a member of the Board of Directors and is not an employee of the Corporation.

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

	2018	2017
Total Outstanding, beginning of year	52,541	-
Granted	100,000	52,500
Reinvested dividends	6,513	41
Total Outstanding December 31, 2018	<b>159,054</b>	<b>52,541</b>

For the twelve months ended December 31, 2018, the Corporation incurred share-based compensation expense of \$0.4 million related to the 159,054 DSUs outstanding (2017 - \$0.2 million).

# High Arctic Energy Services Inc.

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### Executive and Director Share Incentive Plan

Prior to the establishment of the PSUP the Corporation maintained an Executive and Director Share Incentive Plan ("EDSIP") that was approved by the shareholders in 2010. Upon approval of the PSUP, no further grants were made under the EDSIP and the plan was terminated during the second quarter of 2018 upon the release of the remaining EDSIPs under the plan.

During the year ended December 31, 2018, 20,000 shares issued under the EDSIP vested and were released. For the year ended December 31, 2018, the Corporation incurred share-based compensation expense of less than \$0.1 million (2017 – less than \$0.1 million) related to the EDSIP and no amounts remain to be amortized in future periods. A forfeiture rate of nil has been assumed in the share-based compensation expense assumptions with the expense adjusted when actual forfeitures occur.

### Cash Settled Restricted Shares Units

Prior to the establishment of the PSUP, the Corporation issued cash settled restricted share units ("CSRSUs") to certain employees.

	2018	2017
Outstanding, beginning of year	153,600	153,600
Granted	-	100,000
Cancelled / Forfeited	-	-
Settled in cash	(13,600)	(100,000)
Balance, end of year	140,000	153,600

For the year ended December 31, 2018, the Corporation incurred \$0.2 million of share-based compensation expense (2017 – less than \$0.1 million) related to the 140,000 CSRSUs outstanding and an amount of \$0.1 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 CSRSUs.

## 19 Income Taxes

### Income tax expense

The provision for income taxes is:

	2018	2017
Current income tax expense		
Foreign	12.9	11.9
Current income tax expense	12.9	11.9
Deferred income tax expense (recovery)		
Canada	(3.1)	(1.8)
Foreign	1.2	1.0
Deferred income tax expense (recovery)	(1.9)	(0.8)
Total income tax expense	11.0	11.1

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

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Canadian \$ Million

The provision for income taxes in the consolidated statement of earnings varies from the amount that would be computed by applying the expected future income tax rate of 27.0% (2017 – 27.0%) to the net earnings before income taxes.

The effective tax rates are as follows:

	2018	2017
Net earnings before income taxes	22.4	31.4
Canadian statutory tax rate	27.0%	27.0%
Computed income tax expense at the statutory rate	6.1	8.5
Increase (decrease) resulting from:		
Non-deductible expenses	0.4	0.2
Change in valuation allowance	(1.3)	-
Tax rate differences for foreign subsidiaries	6.0	4.0
Canadian timing differences not recognized for tax purposes	-	(1.6)
Other	(0.2)	-
Income tax expense	11.0	11.1
Effective tax rate	49.1%	35.4%

The Corporation's effective tax rate increased to 49% in 2018 from 35% in 2017. The increase in effective tax rate is largely due to an increase in year to date tax expense associated with tax withholdings on dividend payments from PNG.

### Income tax asset (liabilities)

Differences between the accounting and tax basis of assets and liabilities at the tax rates expected to apply upon the reversal of the differences are shown below:

	2018	2017
Deferred income tax assets by jurisdiction:		
Canada	7.6	7.0
	7.6	7.0
Deferred income tax liabilities by jurisdiction:		
Canada	-	-
Foreign	(11.3)	(9.2)
	(11.3)	(9.2)
Net deferred income tax assets (liabilities)	(3.7)	(2.2)

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

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The movement in deferred tax assets and liabilities during the year is as follows:

	Jan 1, 2018	Recognized in earnings	Exchange Differences	Dec 31, 2018
Deferred income tax asset				
Non-capital losses	7.0	0.6	-	7.6
	7.0	0.6	-	7.6
Deferred income tax liabilities				
Property and equipment	(8.3)	(3.9)	0.9	(11.3)
Accrued expenses	(0.9)	0.9	-	-
	(9.2)	(3.0)	0.9	(11.3)
Net deferred income tax asset (liabilities)	(2.2)	(2.4)	0.9	(3.7)
	Jan 1, 2017	Recognized in earnings	Exchange Differences	Dec 31, 2017
Deferred income tax asset				
Non-capital losses	9.7	1.3	-	11.0
	9.7	1.3	-	11.0
Deferred income tax liabilities				
Property and equipment	(11.5)	(1.2)	0.4	(12.3)
Accrued expenses	(0.1)	(0.8)	-	(0.9)
Dividend withholding tax	(1.5)	1.5	-	-
	(13.1)	(0.5)	0.4	(13.2)
Net deferred income tax asset (liabilities)	(3.4)	0.8	0.4	(2.2)

As at December 31, 2018 a net deferred tax asset of \$11.0 million (2017 - \$11.0 million) was recognized in the statement of financial position based on the probability that the Corporation will generate sufficient taxable income in Canada in the future to recover the deferred tax assets.

A deferred tax liability of \$2.6 million was recognized in 2018 due to timing differences between the tax and accounting values for the business acquisition of Power Energy Holdings Ltd. (note 9).

At each reporting period, the Corporation assesses its ability to utilize the deductible temporary differences based on its history of profitability, the current industry activity and the expectation of future taxable profitability. The deductible temporary differences for which no charges or benefits have been booked that relate to the available tax pools are \$58.0 million (2017 - \$63.8 million) and a potential tax benefit of \$15.7 million (2017 - \$17.2 million) at 27%.

At December 31, 2018, the total Canadian non-capital losses carried forward for income tax purposes was \$106.0 million (2017 - \$96.2 million) which expires in years 2027 through 2038. At December 31, 2018, the total US non-capital losses carried forward for income tax purposes was \$0.7 million USD (2017 - Nil) which can be carried forward indefinitely.

In addition, at December 31, 2018, the Canadian capital losses carried forward for income tax purposes was \$36.9 million (2017 - \$37.9 million) which can be carried forward indefinitely but only used against capital gains. The Corporation has the ability to file amended tax returns to adjust certain discretionary deductions to mitigate the risk of expiring loss carry forwards.

Earnings retained by subsidiaries that may be subject to dividend withholding taxes in the country of origin upon repatriation amounted to \$87.4 million as at December 31, 2018 (2017 - \$93.8 million). The average dividend withholding rate is estimated to be 15%.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

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### 20 Revenue

The following table includes a reconciliation of disaggregated revenue by reportable segment (Note 29). Revenue has been disaggregated by primary geographic location, type of service provided and the amount that relates to lease revenue.

<b>Revenue by Geography Year ended December 31, 2018</b>	<b>Drilling Services</b>	<b>Production Services</b>	<b>Ancillary Services</b>	<b>Inter-Segment Elimination</b>	<b>Total</b>
Canada	-	74.7	4.1	-	78.8
USA	-	2.7	-	-	2.7
PNG	47.8	-	-	-	47.8
<b>Revenue</b>	<b>47.8</b>	<b>77.4</b>	<b>4.1</b>	<b>-</b>	<b>129.3</b>
Lease revenue	45.2	7.5	25.0	(3.7)	74.0
<b>Total Revenue</b>	<b>93.0</b>	<b>84.9</b>	<b>29.1</b>	<b>(3.7)</b>	<b>203.3</b>

<b>Revenue by Geography Year ended December 31, 2017</b>	<b>Drilling Services</b>	<b>Production Services</b>	<b>Ancillary Services</b>	<b>Inter-Segment Elimination</b>	<b>Total</b>
Canada	-	73.0	6.2	-	79.2
PNG	53.3	-	-	-	53.3
<b>Revenue</b>	<b>53.3</b>	<b>73.0</b>	<b>6.2</b>	<b>-</b>	<b>132.5</b>
Lease revenue	51.8	8.0	21.2	(3.3)	77.7
<b>Total Revenue</b>	<b>105.1</b>	<b>81.0</b>	<b>27.4</b>	<b>(3.3)</b>	<b>210.2</b>

### 21 Expenses

<b>Oilfield services expenses by nature</b>	<b>2018</b>	<b>2017</b>
Personnel costs and personnel related costs	76.7	74.0
Drilling rig rental costs	18.7	16.8
Material and supplies costs	17.3	23.5
Equipment operating and maintenance costs	17.8	16.2
Other	5.0	4.3
<b>Total</b>	<b>135.5</b>	<b>134.8</b>
<b>General and administrative expenses by nature</b>	<b>2018</b>	<b>2017</b>
Personnel costs and personnel related costs	13.0	13.1
Professional, legal and consulting fees	1.2	1.6
Facility costs	0.4	0.5
Leases	1.0	0.8
Other	1.4	1.1
<b>Total</b>	<b>17.0</b>	<b>17.1</b>



# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

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### 22 Wages and Benefit Expense

	2018	2017
Salaries and wages and short-term employee benefits	83.9	83.2
Post-employment benefits	0.3	0.3
	84.2	83.5
Stock based compensation	1.4	0.7
<b>Total</b>	<b>85.6</b>	<b>84.2</b>

### Compensation of key management

	2018	2017
Salaries and wages and short-term employee benefits	2.1	2.0
Post-employment benefits	-	0.1
	2.1	2.1
Stock based compensation	1.0	0.5
<b>Total</b>	<b>3.1</b>	<b>2.6</b>

Key management includes the Corporation's directors and executive officers. Three executives have change of control clauses that would result in additional wages and benefit expenses being accrued if executed as well as immediate vesting in outstanding share-based compensation plans.

### 23 Other Expenses

During the second quarter of 2018, the Corporation closed its Blackfalds facility and consolidated these operations with its Acheson facility in an effort to reduce costs and better position the operations closer to areas of field activity. During the year ended December 31, 2018 High Arctic incurred \$0.7 million in expenses associated with the facility closure, of which the majority relate to severance and equipment hauling expenses and have been recognized as an expense in the statement of earnings and comprehensive income.

On August 16, 2018, the Corporation acquired Powerstroke and Saddle Well Services (note 9). During the year ended December 31, 2018, the Corporation incurred \$0.1 million in advisory and legal fees related to the acquisitions which are recognized as an expense in the statement of earnings and comprehensive income.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

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### 24 Significant Subsidiaries

The following table lists the Corporation's principal subsidiaries, the jurisdiction of formation or incorporation of such subsidiaries and the percentage of shares owned, directly or indirectly, by the Corporation as of December 31, 2018:

Name of Subsidiary	Jurisdiction of Formation or Incorporation	Percentage Ownership of Shares Beneficially Owned or Controlled Directly or Indirectly by the Corporation
High Arctic Energy Services Cyprus Limited	Cyprus	100.0
High Arctic Energy Services PNG Limited	PNG	100.0
High Arctic Energy Services (Singapore) PTE Ltd.	Singapore	100.0
High Arctic Energy Services Australia PTY Ltd.	Australia	100.0
Power Energy Holdings Ltd.	Canada	100.0
Powerstroke Well Control Ltd.	Canada	100.0
Powerstroke Well Control Inc.	United States	100.0

### 25 Supplemental Cash Flow Information

Changes in non-cash working capital is comprised of:

	Note	2018	2017
Accounts receivable	6	8.1	7.2
Inventory and prepaid expenses		0.3	(2.0)
Accounts payable and accrued liabilities	11	(3.0)	(13.2)
Income taxes receivable		1.5	(1.5)
Deferred revenue		(0.8)	(0.6)
<b>Total</b>		<b>6.1</b>	<b>(10.1)</b>
Related to:			
Operating Activities		5.3	(10.9)
Investing activities		0.8	0.8
		<b>6.1</b>	<b>(10.1)</b>

### 26 Commitments and Contingencies

#### Inventory

As part of the Corporation's contractual rig management and operations, the Corporation has been supplied an inventory of spare parts with a total value of \$7.9 million by a customer and a third-party supplier for the Corporation's operations in PNG. The inventory is owned by these parties and has not been recorded on the books of High Arctic. At the end of the contracts, the Corporation must return an equivalent amount of inventory to these parties.

# High Arctic Energy Services Inc.

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### Finance 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 fourteen 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 fourteen years as at December 31, 2018 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility and equipment lease commitments	1.9	3.0	1.8	7.8	14.5
<b>Total lease commitments</b>	<b>1.9</b>	<b>3.0</b>	<b>1.8</b>	<b>7.8</b>	<b>14.5</b>

## 27 Capital Disclosures

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

	2018	2017
Shareholder's equity	234.2	230.8
Cash and cash equivalents	(31.5)	(22.1)
<b>Total Capitalization</b>	<b>202.7</b>	<b>208.7</b>

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.

## 28 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 approximate their carrying values due to the short-term nature of these instruments.

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 investment. 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, accrued liabilities, dividends payable 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.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

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### **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 or 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.

### **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 year ended December 31, 2018, a 0.10 basis point 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 year because of changes in foreign exchange.

### **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 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 two large multinational/regional customers (2017 – two) which individually accounted for greater than 10% of its consolidated revenues during 2018. Sales to these two customers were approximately \$86.7 million and \$23.2 million for the year ended December 31, 2018 (2017 - \$63.2 million and \$31.7 million). As at December 31, 2018, these two customers represented 49% and 1%, respectively, of outstanding accounts receivable (December 31, 2017 – two customers represented a total of 56%). Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with these customers.

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### 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:

<b>December 31, 2018</b>	<b>Beyond 5</b>				<b>Total</b>
	<b>1 Year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>Years</b>	
Accounts payable	21.6	-	-	-	21.6
Contingent Liability	1.0	-	-	-	1.0
Dividends payable	0.8	-	-	-	0.8
<b>Total</b>	<b>23.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23.4</b>

  

<b>December 31, 2017</b>	<b>Beyond 5</b>				<b>Total</b>
	<b>1 Year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>Years</b>	
Accounts payable	20.3	-	-	-	20.3
Dividends payable	0.9	-	-	-	0.9
<b>Total</b>	<b>21.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21.2</b>

## 29 Operating Segments

The Corporation determines its operating segments based on internal information reviewed by the executive management team and Board of Directors to allocate resources and assess performance. The Corporation's reportable operating segments, 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, 2018. The revenue, expenses and assets related to the acquisition of Powerstroke and Saddle Well Services have been reported within the Production Services segment. The Corporation operates in three 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 and the United States.

### Ancillary Services

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

### Corporate

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

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2018	Drilling Services	Production Services	Ancillary Services	Corporate	Inter-Segment Elimination	Total
<b>Revenue</b>	93.0	84.9	29.1	-	(3.7)	203.3
<b>Expenses</b>						
Oilfield Services	56.1	73.3	9.8	-	(3.7)	135.5
General and administrative	6.1	6.1	0.9	3.1	-	16.2
Depreciation	9.7	10.8	5.2	-	-	25.7
Loss (gain) on sale of assets	-	-	(0.1)	-	-	(0.1)
	71.9	90.2	15.8	3.1	(3.7)	177.3
	<b>21.1</b>	<b>(5.3)</b>	<b>13.3</b>	<b>(3.1)</b>	<b>-</b>	<b>26.0</b>
Transaction cost	-	-	-	0.8	-	0.8
Share-based compensation	-	-	-	1.4	-	1.4
Foreign exchange loss (gain)	-	-	-	0.8	-	0.8
Interest and finance expense	-	-	-	0.6	-	0.6
<b>Earnings (losses) before income tax</b>	<b>21.1</b>	<b>(5.3)</b>	<b>13.3</b>	<b>(6.7)</b>	<b>-</b>	<b>22.4</b>
<b>Property and equipment</b>	<b>63.8</b>	<b>87.6</b>	<b>32.8</b>	<b>0.2</b>	<b>-</b>	<b>184.4</b>
<b>Total assets less deferred tax assets</b>	<b>97.6</b>	<b>112.4</b>	<b>52.8</b>	<b>2.0</b>	<b>-</b>	<b>264.8</b>

  

2017	Drilling Services	Production Services	Ancillary Services	Corporate	Inter-Segment Elimination	Total
<b>Revenue</b>	105.1	81.0	27.4	-	(3.3)	210.2
<b>Expenses</b>						
Oilfield Services	61.9	64.8	11.4	-	(3.3)	134.8
General and administrative	5.5	6.2	1.5	3.9	-	17.1
Depreciation	9.7	9.5	6.6	0.1	-	25.9
Loss (gain) on sale of assets	-	-	-	-	-	-
	77.1	80.5	19.5	4.0	(3.3)	177.8
	<b>28.0</b>	<b>0.5</b>	<b>7.9</b>	<b>(4.0)</b>	<b>-</b>	<b>32.4</b>
Share-based compensation	-	-	-	0.7	-	0.7
Foreign exchange loss (gain)	-	-	-	(0.7)	-	(0.7)
Interest and finance expense	-	-	-	1.0	-	1.0
<b>Earnings (losses) before income tax</b>	<b>28.0</b>	<b>0.5</b>	<b>7.9</b>	<b>(5.0)</b>	<b>-</b>	<b>31.4</b>
<b>Property and equipment</b>	<b>68.0</b>	<b>81.8</b>	<b>32.8</b>	<b>0.3</b>	<b>-</b>	<b>182.9</b>
<b>Total assets less deferred tax assets</b>	<b>114.2</b>	<b>99.2</b>	<b>43.9</b>	<b>2.7</b>	<b>-</b>	<b>260.0</b>

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<b>2018</b>	<b>PNG</b>	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Revenue	109.9	90.7	2.7	203.3
Total assets less deferred tax assets	135.2	128.3	1.3	264.8

<b>2017</b>	<b>PNG</b>	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Revenue	119.1	91.1	-	210.2
Total assets less deferred tax assets	144.6	115.4	-	260.0