

HIGH ARCTIC ENERGY SERVICES INC.



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
MARCH 31, 2019 and 2018**

High Arctic Energy Services Inc.
Consolidated Statements of Financial Position
As at March 31, 2019 and December 31, 2018
Unaudited - Canadian \$ Million

	Notes	March 31, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		23.0	31.5
Accounts receivable	4	44.1	36.5
Short term investments	5	0.9	1.0
Inventory	6	10.1	10.6
Prepaid expenses		0.6	0.8
		<u>78.7</u>	<u>80.4</u>
Non-current assets			
Property and equipment	8	177.4	184.4
Right-of-use asset	7	7.6	0.0
Deferred tax asset		7.6	7.6
		<u>7.6</u>	<u>7.6</u>
Total assets		<u>271.3</u>	<u>272.4</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	22.4	21.6
Dividend payable	12	0.8	0.8
Current portion of lease liability	10	1.3	0.0
Deferred revenue		0.5	0.2
Contingent liability	11	1.0	1.0
		<u>26.0</u>	<u>23.6</u>
Non-current liabilities			
Finance Lease Obligation		-	0.5
Lease liability	10	9.7	2.8
Deferred tax liability		10.5	11.3
		<u>10.5</u>	<u>11.3</u>
Total liabilities		<u>46.2</u>	<u>38.2</u>
Shareholders' equity	14	<u>225.1</u>	<u>234.2</u>
Total liabilities and shareholders' equity		<u>271.3</u>	<u>272.4</u>
Commitments and contingencies	19		
Subsequent events	23		

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 Earnings (loss) and Comprehensive Income (loss)

For the three months ended March 31, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

		Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	Notes		
Revenue	16	46.5	53.7
Expenses			
Oilfield services	17	37.3	35.7
General and administration	17	3.7	4.3
Depreciation	8	7.0	6.4
Share-based compensation	15	0.3	0.6
		48.3	47.0
Operating earnings (loss)		(1.8)	6.7
Foreign exchange (gain) loss		(0.2)	0.4
(Gain) on sale of property and equipment		(0.8)	-
Interest and finance expense		0.2	0.1
Net earnings before income taxes		(1.0)	6.2
Current income tax expense		0.5	1.6
Deferred income tax expense (recovery)		(0.5)	0.2
		-	1.8
Net earnings (loss) for the period		(1.0)	4.4
Earnings (loss) per share:	14		
Basic		(0.02)	0.08
Diluted		(0.02)	0.08
		Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net earnings (loss) for the period		(1.0)	4.4
Other comprehensive income (loss):			
Items that may be reclassified subsequently to net income:			
Foreign currency translation (losses) gains for foreign operations		(3.0)	3.9
Items that may not be reclassified subsequently to net income:			
(Losses) on short term investments, net of tax (note 5)		-	(0.7)
Comprehensive income (loss) for the period		(4.0)	7.6

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2019 and 2018

Unaudited - Canadian \$ Million

	Notes	Share capital	Contributed surplus	NCIB Equity	Accumulated other comprehensive income	Retained earnings (deficit)	Total shareholders' equity
Balance at January 1, 2019		177.9	9.6	-	28.8	17.9	234.2
Net earnings (loss)		-	-	-	-	(1.0)	(1.0)
Dividends	12	-	-	-	-	(2.5)	(2.5)
Other comprehensive income - foreign currency translation loss		-	-	-	(3.0)	-	(3.0)
Other comprehensive income - loss on short term investments	5	-	-	-	-	-	-
Purchase of common shares for cancellation	14	(2.7)	(0.2)	-	-	-	(2.9)
Share-based payment transactions		-	0.3	-	-	-	0.3
Balance at March 31, 2019		175.2	9.7	-	25.8	14.4	225.1

	Notes	Share capital	Contributed surplus	NCIB Equity	Accumulated other comprehensive income	Retained earnings (deficit)	Total shareholders' equity
Balance at January 1, 2018		186.1	9.4	-	18.5	16.8	230.8
Net earnings		-	-	-	-	4.4	4.4
Dividends	12	-	-	-	-	(2.6)	(2.6)
Other comprehensive income - foreign currency translation loss		-	-	-	3.9	-	3.9
Other comprehensive income - gain on short term investments	5	-	-	-	(0.7)	-	(0.7)
Purchase of common shares for cancellation		(0.9)	(0.1)	-	-	-	(1.0)
Liability for share repurchase commitment		-	-	(2.4)	-	-	(2.4)
Share-based payment transactions		-	0.6	-	-	-	0.6
Balance at March 31, 2018		185.2	9.9	(2.4)	21.7	18.6	233.0

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the three months ended March 31, 2019 and 2018

Unaudited - Canadian \$ Million

		Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	Notes		
Net earnings (loss) for the period		(1.0)	4.4
Adjustments for:			
Depreciation	8	7.0	6.4
Provision for onerous lease		-	(0.1)
Share-based compensation	15	0.3	0.6
(Gain) on sale of property and equipment		(0.8)	-
Foreign exchange (gain) loss		(0.2)	0.4
Deferred income tax expense (recovery)		(0.5)	0.2
		4.8	11.9
Net changes in items of working capital		(4.8)	(7.1)
Net cash generated from operating activities		-	4.8
Investing activities			
Additions of property and equipment	8	(2.6)	(2.6)
Sale of short term investments		0.1	-
Disposal of property and equipment		1.4	0.1
Net changes in items of working capital		(0.3)	(0.2)
Net cash used in investing activities		(1.4)	(2.7)
Financing activities			
Dividend payments	12	(2.5)	(2.6)
Purchase of common shares for cancellation	14	(2.9)	(1.0)
Capital lease obligations		(0.4)	-
Finance lease obligation payments		-	(1.0)
Net cash used in investing activities		(5.8)	(4.6)
Effect of exchange rate changes		(1.3)	0.1
Net change in cash and cash equivalents		(8.5)	(2.4)
Cash and cash equivalents - beginning of period		31.5	22.1
Cash and cash equivalents - end of period		23.0	19.7
Cash paid for:			
Interest		0.2	0.1
Income taxes		0.5	0.7

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
Unaudited - Canadian \$ Million, except per share amounts

1 Nature of Business

High Arctic Energy Services Inc. ("High Arctic" or "the Corporation") is incorporated under the laws of Alberta, Canada and is a publicly traded corporation listed on the Toronto Stock Exchange under the symbol "HWO". The head office of the Corporation is located at 700 – 2nd Street S.W. Suite 500, Calgary, Alberta, Canada, T2P 2W1. High Arctic's business is to provide contract drilling, 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 March 31, 2019, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L. representing 43.6% of the outstanding common shares.

2 Basis of Preparation

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

The Financial Statements of High Arctic for the three months ended March 31, 2019 were approved by the Board of Directors on May 9, 2019.

3 Changes in Accounting Policies

These financial statements have been prepared using the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Corporation for the year ended December 31, 2018, with the exception of the adoption of IFRS 16, "Leases" described below. These financial statements do not include all of the information and disclosures required in the Corporation's annual consolidated financial statements, and should be read in conjunction with the Corporation's annual audited consolidated financial statements for the year ended December 31, 2018.

IFRS 16 – Leases

The Corporation applied IFRS 16 with an initial application date of January 1, 2019. As a result, the Corporation has changed its accounting policy for lease contracts as detailed in the "Significant Accounting Policy" section below.

The Corporation applied IFRS 16 using the modified retrospective approach. As the standard allows for prospective application, the comparative periods for 2018 have not been restated. For leases entered into prior to January 1, 2019 the Corporation has chosen to measure the right-of-use asset at an amount equal to the lease liability.

a) Definition of a lease

Previously, the Corporation determined at contract inception whether an agreement was or contained a lease under IAS 17, "Leases" and IFRIC 4, "Determining Whether an Arrangement Contains a Lease." Under IFRS 16, the Corporation assesses whether a contract is or contains a lease based on the definition of a lease as explained in "Significant Accounting Policies".

b) Lessee arrangements

As a lessee, the Corporation previously classified leases as operating or finance leases based on their assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Corporation. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for most leases. The Corporation decided to apply recognition exemptions to short-term leases.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
 Unaudited - Canadian \$ Million, except per share amounts

(i) Leases classified as operating under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability.

The Corporation used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Adjusted the right-of-use assets by the amount of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets," onerous contract provision before the date of initial application, as an alternative to an impairment review;
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- By class of underlying assets, elected to combine lease and non-lease components as a single lease component; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(ii) Leases classified as finance leases under IAS 17

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability as at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

c) Impact on Financial Statements

On transition to IFRS 16, the Corporation recognized the following changes (using its incremental borrowing rate calculated as of January 1, 2019 of 4.45%):

	As reported on December 31, 2018	Adjustments	Balance on Adoption January 1, 2019
Assets			
Right-of-use Asset	-	8.0	8.0
Property and Equipment	184.4	(0.6)	183.8
Liabilities			
Lease Liability	-	(11.2)	(11.2)
Unfavourable Lease Liability	(2.8)	2.8	-
Accounts Payable and Accrued Liabilities	(21.6)	0.5	(21.1)
Finance Lease Obligation	(0.5)	0.5	-
Total	159.5	0.0	159.5

Unfavourable Lease Liability and Finance Lease Obligation are replaced by Lease Obligation with the adoption of IFRS 16. The change in Accounts Payable and Accrued Liabilities relate to the current portion of the onerous and unfavourable lease liabilities.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
 Unaudited - Canadian \$ Million, except per share amounts

The following is a reconciliation of the December 31, 2018 commitment note to the Corporation's lease liabilities as at January 1, 2019:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Corporation's consolidated financial statements	14.5
Discount using the incremental borrowing rate at January 1, 2019	11.0
Fixed Payments for Non-lease Components	0.3
Short-term leases	(0.1)
Lease liability as of January 1, 2019	11.2

Update to Significant Accounting Policies

IFRS 16 – Leases

The Corporation has applied IFRS 16 using the modified retrospective approach on January 1, 2019. Therefore, comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately as they are different from those under IFRS 16 and the impact of the changes is disclosed in "Changes in Accounting Policies".

(a) Definition of a lease

Definition applicable after January 1, 2019

On transition to IFRS 16, at inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation considers whether it has the right to substantially all of the economic benefits from the use of the identified asset and the right to direct the use of the asset.

At inception or on reassessment of a contract that contains a lease component, the Corporation allocates consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

Definition applicable before January 1, 2019

For contracts entered into before January 1, 2019, the Corporation determined whether the arrangement was or contained a lease based on the assessment of whether the arrangement was dependent on the use of a specified asset and conveyed the right to use the asset.

(b) Lessee arrangements

Effective January 1, 2019, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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

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

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
 Unaudited - Canadian \$ Million, except per share amounts

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

The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Corporation has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Under IAS 17

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

4 Accounts Receivable

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

	March 31, 2019	December 31, 2018
Less than 31 days	19.2	17.4
31 to 60 days	17.1	11.3
61 to 90 days	1.6	5.0
Greater than 90 days	6.3	2.9
Allowance for doubtful accounts	(0.1)	(0.1)
Total	44.1	36.5

The Corporations accounts receivable are denominated in the following currencies:

Canadian dollar	18.3	15.7
United States dollar (2019 - US \$19.3; 2018 - US \$15.4)	25.8	20.8
Total	44.1	36.5

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.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
 Unaudited - Canadian \$ Million, except per share amounts

Total receivable	Less than 31 days	31 to 60 days	61-90 days	Over 90 days	Total
Investment grade receivables	15	14.3	1.0	5.3	35.6
Non-investment grade receivables	4.2	2.8	0.6	1.0	8.6
Total receivables	19.2	17.1	1.6	6.3	44.2
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)	(0.01)	(0.00)	(0.01)	(0.03)
Non-investment grade expected credit loss provision	(0.03)	(0.03)	(0.01)	(0.04)	(0.11)
Total allowance for doubtful accounts	(0.04)	(0.04)	(0.01)	(0.05)	(0.14)

5 Short Term Investments

High Arctic periodically invests in the common shares and debt instruments of certain publicly traded oil and gas service companies. As at March 31, 2019, the investments are presented at a fair value of \$0.9 million (December 31, 2018 - \$1.0 million).

Short term investments consist of the following:

	March 31, 2019	December 31, 2018
Investments in equity securities	0.9	1.0
Total	0.9	1.0

6 Inventory

As at March 31, 2019, the Corporation had inventory of \$10.1 million (December 31, 2018 - \$10.6 million), which is primarily comprised of parts and materials related to maintenance, recertification and refurbishment of rigs and rig-related equipment. During the three months ended March 31, 2019, the Corporation did not recognize an impairment on inventory items (2018 – nil).

7 Right-of-Use Assets

	Real Estate	Vehicles	Total
Cost			
Balance as at January 1, 2019	7.3	0.7	8.0
Additions	-	0.1	0.1
Balance as at March 31, 2019	7.3	0.8	8.1
Accumulated Depreciation			
Balance as at January 1, 2019	-	-	-
Depreciation expense	0.4	0.1	0.5
Net book value as at March 31, 2019	6.9	0.7	7.6

There was an addition to the right-of-use asset in the quarter relating to a vehicle that was added to the fleet.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
 Unaudited - Canadian \$ Million, except per share amounts

8 Property and Equipment

The following tables provide a continuity of the property and equipment costs, net of impairment and accumulated depreciation, and provide details of the effects of foreign currency translation for the three months ended March 31, 2019 and year ended December 31, 2018.

Cost:	Vehicles	Oilfield Equipment	Computer hardware and office equipment	Land & Building	Work-in- progress	Total
Balance, January 1, 2018	11.1	314.5	3.2	13.3	1.9	344.0
Acquisition (note 7)	-	13.4	-	-	-	13.4
Additions	-	-	-	-	9.8	9.8
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
Balance, December 31, 2018	10.3	349.0	3.5	10.8	3.7	377.3
Additions	-	-	-	-	2.6	2.6
Disposals	(0.2)	(1.7)	-	-	-	(1.9)
Transfers	-	1.5	-	-	(1.5)	-
IFRS transition	(0.9)	-	-	-	-	(0.9)
Effect of foreign exchange	-	(3.8)	-	-	-	(3.8)
Balance, March 31, 2019	9.2	345.0	3.5	10.8	4.8	373.3

Accumulated depreciation and impairments:	Vehicles	Oilfield Equipment	Computer hardware and office equipment	Land & Building	Work-in- progress	Total
Balance, January 1, 2018	7.5	149.9	2.9	0.8	-	161.1
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
Balance, December 31, 2018	7.7	181.1	3.1	1.0	-	192.9
Depreciation for the year	0.1	6.3	-	0.1	-	6.5
Disposals	(0.2)	(1.1)	-	-	-	(1.3)
IFRS transition	(0.2)	-	-	-	-	(0.2)
Effect of foreign exchange	-	(2.0)	-	-	-	(2.0)
Balance, March 31, 2019	7.4	184.3	3.1	1.1	-	195.9

Carrying amounts of property and equipment:

At December 31, 2018	2.6	167.9	0.4	9.8	3.7	184.4
At March 31, 2019	1.8	160.7	0.4	9.7	4.8	177.4

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
 Unaudited - Canadian \$ Million, except per share amounts

9 Accounts Payable and Accrued Liabilities

	March 31, 2019	December 31, 2018
Accounts payable	10.3	10.9
Accrued liabilities	7.0	7.0
Accrued payroll	4.2	2.0
Income taxes payable	0.9	1.0
Current portion - finance lease obligation	-	0.2
Current portion - unfavourable lease liability	-	0.5
Total	22.4	21.6

10 Lease Liabilities

	Three months ended March 31, 2019
Balance as at January 1, 2019	11.2
Additions	0.1
Lease payments	(0.4)
Interest expense	0.1
Balance as at March 31, 2019	11.0
Current	1.3
Non-current	9.7

The Corporation has lease liabilities for various types of real estate assets and vehicles. The lease term in each arrangement is determined based on the need for the particular asset and not in contemplation with another leased asset or as a portfolio.

There were no new lease arrangements entered into within the period ending March 31, 2019. The Corporation has short-term lease payments of \$0.1 million in the quarter for leases ending within the following twelve months.

The undiscounted cash flows relating to the lease liabilities are:

	Three months ended March 31, 2019
Maturity analysis - contractual undiscounted cash flow	
Less than one year	2.0
One to five years	4.6
More than five years	7.9
Total undiscounted lease liabilities as at March 31, 2019	14.5

11 Contingent Liability

For the period ended March 31, 2019, \$1 million is payable under the contingent payment agreement arising from the Powerstroke business acquisition that occurred in August 2018. The amount is to be paid out dependent on

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

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.

12 Dividend Payable

Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. During the three months ended March 31, 2019, the Corporation declared dividends of \$2.5 million (2018 - \$2.6 million), of which \$0.8 million was payable as of March 31, 2019 (December 31, 2018 - \$0.8 million). Since March 31, 2019, a monthly dividend of \$0.0165 per share has been declared for a total of \$0.8 million.

13 Long-Term Debt

In the third quarter of 2018, High Arctic renewed its existing credit facility. As at March 31, 2019, 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 March 31, 2019, no amounts were drawn on the facility (December 31, 2018) and total credit available to draw was \$45.0 million.

There have been no changes to these financial covenants subsequent to March 31, 2019 and the Corporation remains in compliance with the financial covenants under its credit facility as at March 31, 2019.

14 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:	Three months ended March 31, 2019		Year ended December 31, 2018	
	Shares	\$	Shares	\$
Balance, beginning of year	51,009,011	177.9	53,331,039	186.0
Issuance of shares upon exercise of options (note 15)	-	-	128,500	0.5
Issuance of performance share units (note 15)	8,334	-	3,334	-
Normal course issuer bid (note 14)	(770,151)	(2.7)	(2,473,862)	(8.7)
Vested restricted shares (note 15)	-	-	20,000	0.1
Total common shares outstanding	50,247,194	175.2	51,009,011	177.9

Issuance of Shares

For the three months ended March 31, 2019 no stock options (year ended December 31, 2018 – 128,500) were exercised for shares of the Corporation (see note 16).

Normal Course Issuer Bid

In 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 ("the Bid"). The NCIB is valid for one year and will expire on November 18, 2019. A total of 770,151 common shares have been purchased and cancelled under this NCIB in the quarter at a cost of \$2.9 million. Since the inception of the NCIB program on November 15, 2018 up to March 31, 2019, 1,016,239 common shares have been purchased and cancelled at a total cost of \$3.8 million.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
Unaudited - Canadian \$ Million, except per share amounts

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

(\$ thousands)	Three months ended March 31, 2019	Year ended December 31, 2018
Shares repurchased	770,151	2,473,862
Amounts charged to		
Share capital	2.7	8.7
Contributed surplus	0.2	0.9
Share repurchase cost	2.9	9.6

(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.

	Three months ended March 31, 2019		Three months ended March 31, 2018	
	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings per share	50,788,177	\$ (0.02)	53,176,071	\$ 0.17
Dilution effect of options	424,793	-	510,482	-
Weighted average number of common shares used in diluted earnings per share	51,212,970	\$ (0.02)	53,686,553	\$ 0.17

For the three months ended March 31, 2019, 578,000 stock options (2017 – 497,800) were excluded in the calculation of diluted earnings per share as the effect would have been anti-dilutive.

15 Share-based Compensation

The Corporation has various equity-based compensation plans under which the Corporation may issue up to 5,024,719 common shares (being 10% of all outstanding shares) as at March 31, 2019. The following table summarizes the Corporation's outstanding grants for each equity-based compensation plan.

	Three months ended March 31, 2019	Year ended December 31, 2018
Stock Options	1,343,000	1,343,000
Restricted Share Units	175,038	174,218
Performance Share Units	216,211	220,330
Deferred Share Units	161,146	159,054
Balance, end of period	1,895,395	1,896,602
Common shares available for grants	5,074,540	5,100,901
Percentage used of total available	37%	37%
Remaining common shares available for grants	3,179,145	3,204,299

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

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 March 31, 2019, 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 2.7 years and 647,500 options are currently vested and eligible to be exercised.

	Number of Options	Weighted Average Exercise Price \$/Share
Total Outstanding January 1, 2018	2,020,800	3.99
Granted	345,000	3.74
Exercised	(128,500)	2.85
Forfeited	(249,500)	4.21
Expired	(644,800)	3.39
Total Outstanding December 31, 2018	1,343,000	4.09
Granted	-	-
Exercised	-	-
Forfeited	-	-
Expired	-	-
Total Outstanding March 31, 2019	1,343,000	4.09

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	2.5	3.51	182,000	3.57
\$3.72 to \$3.75	410,000	3.7	3.75	64,000	3.75
\$3.76 to \$4.39	340,000	3.6	3.84	81,000	3.76
\$4.40 to \$5.31	128,000	0.8	5.17	120,500	5.18
\$5.32 to \$5.32	200,000	0.2	5.32	200,000	5.32
Total Outstanding March 31, 2018	1,343,000	2.7	4.09	647,500	4.45

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 three months ended March 31, 2019 was \$nil million (2018 – less than \$0.1 million).

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 is able to grant share units to employees which upon vesting will be settled through the issuance of common shares of the Corporation.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

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, 2018	106,269	100,430	206,699
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	174,218	220,330	394,548
Exercised	-	(8,334)	(8,334)
Reinvested dividends	820	4,215	5,035
Total Outstanding March 31, 2019	175,038	216,211	391,249

During the three months ended March 31, 2019, no Performance Share Units (“PSUs”) and no Restricted Share Units (“RSUs”) were granted. For the three months ended March 31, 2019 the Corporation incurred \$0.2 million of share-based compensation expense (2018 – \$0.1 million) related to the 391,249 units issued under the PSUP and an amount of \$0.5 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.

	Three months ended March 31, 2019	Year ended December 31, 2018
Total Outstanding, beginning of year	159,054	52,541
Granted	-	100,000
Reinvested dividends	2,092	6,513
Total Outstanding, end of period	161,146	159,054

For the three months ended March 31, 2019, the Corporation incurred share-based compensation expense of \$nil million related to the 159,054 DSUs outstanding (2018 – \$0.4 million).

Cash Settled Restricted Shares Units

Prior to the establishment of the PSUP, the Corporation issued cash settled restricted share units (“CSRSUs”) to certain employees. For the three months ended March 31, 2019, the Corporation incurred less than \$0.1 million of share-based compensation expense (2018 – less than \$0.1 million) related to the 140,000 CSRSUs

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
 Unaudited - Canadian \$ Million, except per share amounts

outstanding and an amount of less than \$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.

	Three months ended March 31, 2019	Year ended December 31, 2018
Cash Settled Restricted Shares Units		
Outstanding, beginning of year	140,000	153,600
Granted	-	-
Cancelled / Forfeited	-	-
Settled in cash	-	(13,600)
Balance, end of period	140,000	140,000

16 Revenue

The following table includes a reconciliation of disaggregated revenue by reportable segment (Note 24). Revenue has been disaggregated by primary geographic location, type of service provided and the amount that relates to lease revenue.

Revenue by Geography	Drilling Services	Production Services	Ancillary Services	Inter-Segment Elimination	Total
Three months ended March 31, 2019					
Canada	-	19.8	0.8	-	20.6
USA	-	1.4	-	-	1.4
PNG	14.2	-	-	-	14.2
Revenue from contracts with customers	14.2	21.2	0.8	-	36.2
Operating lease revenue	4.6	1.6	4.9	(0.8)	10.3
Total revenue	18.8	22.8	5.7	(0.8)	46.5
Three months ended March 31, 2018					
Canada	-	21.3	1.1	-	22.4
PNG	12.2	-	-	-	12.2
Revenue from contracts with customers	12.2	21.3	1.1	-	34.6
Operating lease revenue	11.3	2.0	6.7	(0.9)	19.1
Total revenue	23.5	23.3	7.8	(0.9)	53.7

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
 Unaudited - Canadian \$ Million, except per share amounts

17 Expenses

Oilfield services expenses by nature	Three months ended March 31, 2019	Three months ended March 31, 2018
Personnel costs and personnel related costs	21.7	19.7
Drilling rig rental costs	4.6	4.8
Material and supplies costs	4.8	4.8
Equipment operating and maintenance costs	4.8	5.1
Other	1.4	1.3
Total	37.3	35.7

General and administrative expenses by nature	Three months ended March 31, 2019	Three months ended March 31, 2018
Personnel costs and personnel related costs	2.8	3.3
Professional, legal and consulting fees	0.2	0.2
Facility costs	0.2	0.1
Leases	0.2	0.3
Other	0.3	0.4
Total	3.7	4.3

18 Supplemental Cash Flow Information

Changes in non-cash working capital is comprised of:

	Note	Three months ended March 31, 2019	Three months ended March 31, 2018
Accounts receivable	4	(7.6)	(6.9)
Inventory and prepaid expenses		0.7	-
Accounts payable and accrued liabilities	9	1.6	(1.2)
Income taxes payable		(0.1)	0.9
Deferred revenue		0.3	(0.1)
Total		(5.1)	(7.3)
Related to:			
Operating Activities		(4.8)	(7.1)
Investing activities		(0.3)	(0.2)
		(5.1)	(7.3)

19 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 \$7.8 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.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
 Unaudited - Canadian \$ Million, except per share amounts

20 Capital Disclosures

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

	March 31, 2019	December 31, 2018
Shareholder's equity	225.1	234.2
Cash and cash equivalents	(23.0)	(31.5)
Total Capitalization	202.1	202.7

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

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

21 Financial Instruments and Risk Management

Fair Value of Financial Assets and Liabilities

Cash and cash equivalents include cash and term deposits and are classified as financial assets at fair value through profit and loss. Cash and cash equivalents are measured at fair value and unrealized gains or losses related to changes in fair value are reported in income. Accounts receivable, and other receivables are classified as assets at amortized cost using the effective interest method, less impairment allowance, if any. Any gains or losses on the realization of loans and receivables are included in earnings. The fair value of accounts and other receivables 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, lease liabilities and the long-term debt are designated as other liabilities and are recorded at amortized cost.

Financial and Other Risks

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

Market Risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market rates of interest, foreign currency exchange rates and commodity prices.

Other Price Risk

Other price risk is the risk that the fair value 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.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

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 three months ended March 31, 2019, a \$0.10 change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a \$0.1 million change in net earnings for the year as a result of changes in foreign exchange.

Credit Risk and Customers

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

The Corporation's accounts receivable 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 (2018 – three) which individually accounted for greater than 10% of its consolidated revenues during the three months ended March 31, 2019. Sales to these two customers were approximately \$23.5 million and \$6.3 million, respectively, for the three months ended March 31, 2019 (2018 - \$20.6 million and \$6.7 million). As at March 31, 2019, these two customers represented 48% and 8%, respectively, of outstanding accounts receivable (March 31, 2018 – two customers represented a total of 60%). Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with these customers.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Corporation seeks to manage its financing based on the results of these processes. The following are the contractual maturities of financial liabilities in their future fair value amounts:

March 31, 2019	Beyond 5				Total
	1 Year	2-3 Years	4-5 Years	Years	
Accounts payable	22.4	-	-	-	22.4
Contingent Liability	1.0	-	-	-	1.0
Dividends payable	0.8	-	-	-	0.8
Lease liability	1.3	2.3	1.1	6.3	11.0
Total	25.5	2.3	1.1	6.3	35.2

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

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

22 Operating Segments

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

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

Three months ended March 31, 2019	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	18.8	22.8	5.7	-	(0.8)	46.5
Expenses						
Oilfield Services	14.6	20.7	2.8	-	(0.8)	37.3
General and administrative	1.2	1.5	0.1	0.9	-	3.7
Depreciation	2.5	3.3	1.2	-	-	7.0
Loss (gain) on sale of assets	-	-	(0.8)	-	-	(0.8)
	18.3	25.5	3.3	0.9	(0.8)	47.2
	0.5	(2.7)	2.4	(0.9)	-	(0.7)
Share-based compensation	-	-	-	0.3	-	0.3
Foreign exchange loss (gain)	-	-	-	(0.2)	-	(0.2)
Interest and finance expense	-	-	-	0.2	-	0.2
Earnings (losses) before income tax	0.5	(2.7)	2.4	(1.2)	-	(1.0)
Property and equipment	60.0	86.4	30.8	0.2	-	177.4
Right-of-use assets	-	-	-	7.6	-	7.6

Three months ended March 31, 2018	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	23.5	23.3	7.8	-	(0.9)	53.7
Expenses						
Oilfield Services	14.5	19.2	2.9	-	(0.9)	35.7
General and administrative	1.5	1.5	0.3	1.0	-	4.3
Depreciation	2.4	2.7	1.3	-	-	6.4
Share-based compensation	-	-	-	0.6	-	0.6
	18.4	23.4	4.5	1.6	(0.9)	47.0
	5.1	(0.1)	3.3	(1.6)	-	6.7
Foreign exchange loss (gain)	-	-	-	0.4	-	0.4
Interest and finance expense	-	-	-	0.1	-	0.1
Earnings (losses) before income tax	5.1	(0.1)	3.3	(2.1)	-	6.2
Property and equipment	67.4	79.6	34.3	0.3	-	181.6
Total assets less deferred tax assets	119.8	97.6	44.9	2.0	-	264.3

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

Three months ended March 31, 2019	PNG	Canada	United States	Total
Revenue	18.8	26.3	1.4	46.5
Total assets less deferred tax assets	145.7	116.2	1.8	263.7

Three months ended March 31, 2018	PNG	Canada	United States	Total
Revenue	27.6	26.1	-	53.7
Total assets less deferred tax assets	151.5	112.8	-	264.3

23 Subsequent Event

Business Acquisition

On April 15, 2019, High Arctic acquired the assets of Precision Drilling's snubbing services equipment, entirely located in Canada providing High Arctic with additional quality snubbing equipment and access to experienced personnel and crews. The purchase price of \$8.25 million was settled in cash from cash on hand. The acquisition will provide High Arctic with twelve additional marketed snubbing units, seven of which have been active over the last twelve months. This will provide additional capacity to further strategic diversification and growth in the United States. It will also increase High Arctic's fleet size, scale and capability in Canada to meet the needs of customers through safe and efficient services designed to increase production and lower costs. Upon closing, High Arctic owns and operates the largest snubbing fleet in Canada consisting of a total of 29 snubbing units.