

HIGH ARCTIC ENERGY SERVICES INC.



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE AND NINE MONTH PERIODS ENDED
SEPTEMBER 30, 2019 and 2018**

High Arctic Energy Services Inc.
Consolidated Statements of Financial Position
As at September 30, 2019 and December 31, 2018
Unaudited - Canadian \$ Million

	Notes	September 30, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		12.1	31.5
Accounts receivable	4	36.8	36.5
Short term investments	5	-	1.0
Inventory	6	9.3	10.6
Prepaid expenses		1.1	0.8
Income taxes receivable		3.1	-
		<u>62.4</u>	<u>80.4</u>
Non-current assets			
Property and equipment	9	178.6	184.4
Right-of-use asset	7	7.8	-
Deferred tax asset		7.6	7.6
		<u>194.0</u>	<u>192.0</u>
Total assets		<u>256.4</u>	<u>272.4</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	22.0	21.6
Dividend payable	13	0.8	0.8
Current portion of lease liability	3,11	1.4	-
Deferred revenue		-	0.2
Contingent liability	12	-	1.0
		<u>24.2</u>	<u>23.6</u>
Non-current liabilities			
Finance lease obligation		-	0.5
Lease liability	3,11	9.6	2.8
Deferred tax liability		10.1	11.3
		<u>19.7</u>	<u>14.6</u>
Total liabilities		<u>43.9</u>	<u>38.2</u>
Shareholders' equity	15	<u>212.5</u>	<u>234.2</u>
Total liabilities and shareholders' equity		<u>256.4</u>	<u>272.4</u>
Commitments and contingencies	20		

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 Changes in Equity

For the nine months ended September 30, 2019 and 2018

Unaudited - Canadian \$ Million

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
Balance at January 1, 2019		177.9	9.6	28.8	17.9	234.2
Net earnings (loss)		-	-	-	(6.1)	(6.1)
Dividends	13	-	-	-	(7.4)	(7.4)
Other comprehensive income - foreign currency translation loss		-	-	(3.5)	-	(3.5)
Purchase of common shares for cancellation	15	(4.8)	(0.3)	-	-	(5.1)
Share-based payment transactions		-	0.4	-	-	0.4
Balance at September 30, 2019		173.1	9.7	25.3	4.4	212.5

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
Balance at January 1, 2018		186.1	9.4	18.5	16.8	230.8
Net earnings		-	-	-	13.7	13.7
Dividends	13	-	-	-	(7.8)	(7.8)
Other comprehensive income - foreign currency translation loss		-	-	4.9	-	4.9
Other comprehensive income - gain on short term investments		-	-	(0.7)	-	(0.7)
Purchase of common shares for cancellation	15	(7.8)	(1.0)	-	-	(8.8)
Share-based payment transactions		0.2	1.0	-	-	1.2
Balance at September 30, 2018		178.5	9.4	22.7	22.7	233.3

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2019 and 2018

Unaudited - Canadian \$ Million

	Notes	Three months ended September 30		Nine months ended September 30	
		2019	2018	2019	2018
Net earnings (loss) for the period		(1.1)	7.5	(6.1)	13.7
Adjustments for:					
Depreciation	9	7.2	6.5	21.0	19.3
Provision for onerous lease		-	(0.1)	-	(0.3)
Share-based compensation (loss)	16	(0.1)	0.2	0.3	1.0
Loss (gain) on sale of property and equipment		-	0.1	(0.8)	(0.1)
Loss (gain) on foreign exchange		(0.1)	(0.2)	(0.3)	0.5
Deferred income tax expense (recovery)		(0.2)	0.3	(0.8)	0.7
Other income		(0.4)	-	(1.1)	-
		5.3	14.3	12.2	34.8
Net changes in items of working capital	19	(2.7)	(9.4)	(0.7)	(9.2)
Net cash generated from operating activities		2.6	4.9	11.5	25.6
Investing activities					
Additions of property and equipment	9	(3.0)	(2.2)	(9.9)	(6.1)
Business acquisition	8	-	(8.2)	(8.3)	(8.2)
Sale of short term investments		-	-	1.0	-
Disposal of property and equipment	9	0.2	0.3	1.6	0.8
Net changes in items of working capital	19	0.1	1.0	(0.8)	0.7
Net cash used in investing activities		(2.7)	(9.1)	(16.4)	(12.8)
Financing activities					
Long-term debt proceeds	14	-	4.8	5.0	4.8
Long-term debt repayments	14	-	-	(5.0)	-
Dividend payments	13	(2.4)	(2.6)	(7.4)	(7.8)
Purchase of common shares for cancellation	15	(0.4)	(3.5)	(5.1)	(8.8)
Issuance of common shares, net of costs		-	0.1	-	0.2
Finance lease payments		(0.5)	-	(1.4)	(1.1)
Net cash used in financing activities		(3.3)	(1.2)	(13.9)	(12.7)
Effect of exchange rate changes		0.8	(0.4)	(0.6)	0.1
Net change in cash and cash equivalents		(2.6)	(5.8)	(19.4)	0.2
Cash and cash equivalents - beginning of period		14.7	28.1	31.5	22.1
Cash and cash equivalents - end of period		12.1	22.3	12.1	22.3
Cash paid for:					
Interest		0.3	0.2	0.7	0.4
Income taxes		-	0.8	0.5	6.5

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 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 September 30, 2019, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L. representing 44.2% 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") applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These Financial Statements should be read in conjunction with High Arctic's consolidated financial statements for the year ended December 31, 2018 wherein the Corporation's significant accounting policies were presented in Note 3. The significant accounting policies have been consistently applied in the preparation of these Financial Statements.

The Financial Statements of High Arctic for the three and nine months ended September 30, 2019 were approved by the Board of Directors on November 7, 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." The Corporation has also tested its cash generating units for impairment. See "*Impairment of property and equipment*" 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".

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

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.

(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 and nine months ended September 30, 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.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. Generally, the Corporation uses its incremental borrowing rate as the discount rate. The lease payments included in the present value calculation include: fixed payments (and in substance fixed payments); variable lease payments that depend on an index or rate; amounts expected to be payable under a residual value guarantee; the exercise price of purchase options if the lessee is reasonably certain to exercise that option; and early termination penalties.

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

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 sell 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.

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. The Corporation recognized a \$0.4 million loss on accounts receivable with a customer that entered receivership. The Corporation is pursuing recovery of the receivable.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

	September 30, 2019	December 31, 2018
Less than 31 days	23.3	17.4
31 to 60 days	7.2	11.3
61 to 90 days	4.2	5.0
Greater than 90 days	2.2	2.9
Allowance for doubtful accounts	(0.1)	(0.1)
Total	36.8	36.5

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

Canadian dollar	19.0	15.7
United States dollar (2019 - US \$13.5 million; 2018 - US \$15.4 million)	17.8	20.8
Total	36.8	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.

Total receivable	Less than 31 days	31 to 60 days	61-90 days	Over 90 days	Total
Investment grade receivables	17.2	5.9	3.6	1.2	27.9
Non-investment grade receivables	6.1	1.3	0.7	0.9	9.0
Total receivables	23.3	7.2	4.3	2.1	36.9
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)	(0.00)	(0.02)
Non-investment grade expected credit loss provision	(0.05)	(0.01)	(0.02)	(0.04)	(0.12)
Total allowance for doubtful accounts	(0.06)	(0.02)	(0.02)	(0.04)	(0.14)

5 Short Term Investments

High Arctic periodically invests in the common shares and debt instruments of certain publicly and privately traded oil and gas service companies. During the nine months ended September 30, 2019, the Corporation disposed of its remaining interest in short term investments (December 31, 2018 – fair value of \$1.0 million).

	September 30, 2019	December 31, 2018
Investments in equity securities	-	1.0
Total	-	1.0

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

6 Inventory

As at September 30, 2019, the Corporation had inventory of \$9.3 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 nine months ended September 30, 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	-	1.0	1.0
Balance as at September 30, 2019	7.3	1.7	9.0
Accumulated Depreciation			
Balance as at January 1, 2019	-	-	-
Depreciation expense	0.8	0.4	1.2
Net book value as at September 30, 2019	6.5	1.3	7.8

8 Business Acquisition

On April 15, 2019, High Arctic acquired the assets of Precision Drilling's snubbing services business, 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 has been accounted for as a business combination using the acquisition method of accounting whereby the assets acquired are recorded at estimated fair value on the acquisition date. Transaction costs associated with the acquisition are expensed when incurred.

The consideration of \$8.25 million has all been allocated to equipment, however the allocations of the consideration are preliminary and subject to change upon final adjustment.

Subsequent to the acquisition date, the operating results of the acquired assets have been included in the Corporation's revenues, expenses and capital spending. From the date of acquisition on April 15, 2019, the acquired assets contributed an estimated \$1.6 million of revenue and \$0.4 million of net earnings before tax for the Corporation. If the business combination had been completed on January 1, 2019, the Corporation's consolidated estimated revenue and net earnings (loss) before tax for the nine-month period ended September 30, 2019 would have been \$144.5 million and \$(3.4) million respectively. The estimated pro forma revenue and net earnings before tax have been adjusted as if the acquisition occurred on January 1, 2019, 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, 2019, or the results that may occur in the future.

9 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 nine months ended September 30, 2019 and year ended December 31, 2018.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

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	-	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
Acquisition (note 8)	-	8.3	-	-	-	8.3
Additions	-	-	-	-	9.9	9.9
Disposals	(0.5)	(2.1)	-	-	-	(2.6)
Transfers	-	10.7	0.2	-	(10.9)	-
IFRS 16 transition	(0.9)	-	-	-	-	(0.9)
Effect of foreign exchange	-	(5.4)	-	-	-	(5.4)
Balance, September 30, 2019	8.9	360.5	3.7	10.8	2.7	386.6

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 period	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 period	0.4	19.3	0.1	0.2	-	20.0
Disposals	(0.4)	(1.4)	-	-	-	(1.8)
IFRS 16 transition	(0.2)	-	-	-	-	(0.2)
Effect of foreign exchange	-	(2.9)	-	-	-	(2.9)
Balance, September 30, 2019	7.5	196.1	3.2	1.2	-	208.0

Carrying amounts of property and equipment:

At December 31, 2018	2.6	167.9	0.4	9.8	3.7	184.4
Balance, September 30, 2019	1.4	164.4	0.5	9.6	2.7	178.6

High Arctic Energy Services Inc.

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Unaudited - Canadian \$ Million, except per share amounts

The Corporation undertakes a review for impairment of its cash-generating units (“CGUs”) at each reporting date to determine whether there is any indication of impairment. At September 30, 2019, as a result of the decline in the Corporation’s publicly traded market value, the Corporation determined that an indicator existed and conducted an impairment test to assess whether the respective carrying value of property and equipment was recoverable. The recoverable amount used in assessing impairment was calculated using a value in use model, based on five year discounted future cash flows. The key assumptions used for the impairment calculations were as follows:

As at September 30, 2019					
	Well Servicing & Snubbing Operations	Nitrogen Operations	Canadian Rental Operations	Rig 102	Drilling and PNG Rental Operations
Utilization	10% - 60%	25% - 33%	9% of well servicing and snubbing revenue	0% - 41%	0% - 85%
Revenue and cost escalations	0% - 2%	0% - 2%	0% - 2%	NA	0% - 10%
Terminal value multiple (gross profit)	6.0x	4.5x	3.5x	2.5x	2.5x
Discount rate	15%	15%	15%	15%	15%

Management’s estimates of recoverable amounts are subject to measurement uncertainty as the recoverable amounts are based upon current operating forecasts, utilization rates, rates and costs for available equipment (margin), terminal values and discount rates.

At September 30, 2019, the recoverable amount of the CGUs exceeded their respective carrying values and no impairment loss was recognized.

10 Accounts Payable and Accrued Liabilities

	September 30, 2019	December 31, 2018
Accounts payable	10.5	10.9
Accrued liabilities	7.1	7.0
Accrued payroll	3.7	2.0
Income taxes payable	0.7	1.0
Current portion - finance lease obligation	-	0.2
Current portion - unfavourable lease liability	-	0.5
Total	22.0	21.6

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

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Unaudited - Canadian \$ Million, except per share amounts

11 Lease Liabilities

	Nine months ended September 30, 2019
Balance as at January 1, 2019	11.2
Additions	0.8
Lease payments	(1.4)
Interest expense	0.4
Balance as at September 30, 2019	11.0
Current	1.4
Non-current	9.6
	11.0

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 \$0.1 million in new lease arrangements entered into within the third quarter 2019 and \$0.8 million for the nine months ended September 30, 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:

	Nine months ended September 30, 2019
Maturity analysis - contractual undiscounted cash flow	
Less than one year	1.8
One to five years	4.2
More than five years	7.3
Total undiscounted lease liabilities as at September 30, 2019	13.3

12 Other (income) expense

For the period ended September 30, 2019, \$0 million was payable under the contingent payment agreement arising from the Powerstroke business acquisition that occurred in August 2018. The amount to be paid out was dependent on a gross profit prescribed target up to a maximum of \$1.0 million in the third quarter of 2019. The Corporation has calculated that no portion of the target was achieved resulting in no pay out. The Corporation recognized a gain of \$1.0 million, \$0.7 million in Q2 and \$0.3 million in Q3 for the reduction of contingent liability from \$1.0 million to \$0.

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. High Arctic incurred \$0.6 million in expenses associated with the facility closure, of which the majority relate to severance and equipment hauling expenses.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

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13 Dividend Payable

Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. During the nine months ended September 30, 2019, the Corporation declared dividends of \$7.4 million (2018 - \$7.8 million), of which \$0.8 million was payable as of September 30, 2019 (December 31, 2018 - \$0.8 million). Since September 30, 2019, a monthly dividend of \$0.0165 per share has been declared for a total of \$0.8 million.

14 Long-Term Debt

During the third quarter of 2019, High Arctic renewed its existing credit facility. As at September 30, 2019, High Arctic's credit facilities consisted of a \$45.0 million revolving loan facility which has been extended and matures on August 31, 2021. 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 September 30, 2019, no amounts were drawn on the facility (December 31, 2018 - \$ nil) and total credit available to draw was \$45.0 million.

The Corporation's loan facilities are subject to two financial covenants which are reported to the lender on a quarterly basis. These changed from the previous three financial covenants with the extension of the facility to the maturity date to August 31, 2021. The Corporation remains in compliance with the financial covenants under its credit facility as at September 30, 2019. The two covenants are to keep the Funded Debt to EBITDA Ratio under 3.00 to 1.00 (previously 2.50 to 1.00) and maintain its ratio of Interest Expense to EBITDA at any time to be less than 3.00 to 1.00. Both are calculated quarterly on the last day of each Fiscal Quarter on a rolling four quarter basis.

There have been no changes to the financial covenants subsequent to September 30, 2019 and the Corporation remains in compliance with the financial covenants under its credit facility as at September 30, 2019.

15 Share Capital and Other Components of Equity

(a) Share Capital

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

Issued:	Nine months ended September 30, 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 16)	-	-	128,500	0.5
Issuance of performance share units (note 16)	8,334	-	3,334	-
Normal course issuer bid	(1,397,247)	(4.8)	(2,473,862)	(8.7)
Vested restricted shares	-	-	20,000	0.1
Total common shares outstanding	49,620,098	173.1	51,009,011	177.9

Issuance of Shares

For the nine months ended September 30, 2019, no stock options (year ended December 31, 2018 – 128,500) were exercised for shares of the Corporation (see note 16).

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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 ("NCIB"). The NCIB is valid for one year and will expire on November 18, 2019. A total of 1,397,247 common shares have been purchased and cancelled under this NCIB in the first nine months of 2019 at a cost of \$5.1 million. Since the inception of the NCIB program on November 15, 2018 up to September 30, 2019, 1,643,335 common shares have been purchased and cancelled at a total cost of \$6.0 million.

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

(\$ thousands)	Nine months ended September 30, 2019	Year ended December 31, 2018
Shares repurchased	1,397,247	2,473,862
Amounts charged to		
Share capital	4.8	8.7
Contributed surplus	0.3	0.9
Share repurchase cost	5.1	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.

	Nine months ended September 30, 2019		Nine months ended September 30, 2018	
	Number of Shares	Earnings (loss) per Share	Number of Shares	Earnings (loss) per Share
Weighted average number of common shares used in basic earnings (loss) per share	50,104,077	\$ (0.12)	52,469,714	\$ 0.26
Dilution effect of options	417,085	-	503,670	-
Weighted average number of common shares used in diluted earnings (loss) per share	50,521,162	\$ (0.12)	52,973,384	\$ 0.26
	Three months ended September 30, 2019		Three months ended September 30, 2018	
	Number of Shares	Earnings (loss) per Share	Number of Shares	Earnings (loss) per Share
Weighted average number of common shares used in basic earnings per share	49,656,358	\$ (0.02)	51,548,685	\$ 0.14
Dilution effect of options	428,858	-	509,631	-
Weighted average number of common shares used in diluted earnings per share	50,085,216	\$ (0.02)	52,058,316	\$ 0.14

For the nine months ended September 30, 2019, 910,000 stock options (2018 – 360,800) were excluded in the calculation of diluted earnings (loss) per share as the effect would have been anti-dilutive.

High Arctic Energy Services Inc.

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16 Share-based Compensation

The Corporation has various equity-based compensation plans under which the Corporation may issue up to 4,962,010 common shares (being 10% of all outstanding shares) as at September 30, 2019. The following table summarizes the Corporation's outstanding grants for each equity-based compensation plan.

	Nine months ended September 30, 2019	Year ended December 31, 2018
Stock Options	980,000	1,343,000
Restricted Share Units	126,402	174,218
Performance Share Units	252,844	220,330
Deferred Share Units	158,051	159,054
Balance, end of period	<u>1,517,297</u>	<u>1,896,602</u>
Common shares available for grants	4,962,010	5,100,901
Percentage used of total available	<u>31%</u>	<u>37%</u>
Remaining common shares available for grants	<u>3,444,713</u>	<u>3,204,299</u>

Stock Option Plan

The Corporation has a Stock Option Plan under which options to purchase common shares may be granted to directors, management and certain employees. At September 30, 2019, a total of 980,000 options are outstanding and expire at various dates up to 2023, at amounts that range from \$3.35 to \$5.07 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 3.0 years and 397,500 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	<u>1,343,000</u>	<u>4.09</u>
Forfeited	(63,000)	3.60
Expired	(300,000)	5.28
Total Outstanding September 30, 2019	<u>980,000</u>	<u>3.76</u>

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

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Exercise Price Range	Options Outstanding			Exercisable Options	
	Number of Options	Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
\$3.35 to \$3.71	205,000	2.2	3.50	135,000	3.58
\$3.72 to \$3.82	500,000	2.9	3.75	145,000	3.76
\$3.83 to \$4.47	250,000	3.7	3.87	100,000	3.87
\$4.48 to \$5.07	25,000	2.5	5.07	17,500	5.07
Total Outstanding					
September 30, 2019	980,000	3.0	3.76	397,500	3.78

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 nine months ended September 30, 2019 was \$ 0.1 million (2018 – \$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.

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	147,550	246,998	394,548
Exercised	(8,334)	-	(8,334)
Cancelled/Forfeited	(18,654)	(5,162)	(23,816)
Reinvested dividends	5,840	11,008	16,848
Total Outstanding September 30, 2019	126,402	252,844	379,246

During the nine months ended September 30, 2019, no Performance Share Units ("PSUs") and no Restricted Share Units ("RSUs") were granted. For the nine months ended September 30, 2019 the Corporation incurred \$0.4 million of share-based compensation expense (2018 – \$0.5 million) related to the 379,246 units issued under the PSUP and an amount of \$0.3 million remains to be amortized in future periods in respect of the PSUP plan.

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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.

	Nine months ended September 30, 2019	Year ended December 31, 2018
Total Outstanding, beginning of year	159,054	52,541
Granted	-	100,000
Exercised	(8,035)	-
Reinvested dividends	7,032	6,513
Total Outstanding, end of period	158,051	159,054

For the nine months ended September 30, 2019, the Corporation incurred share-based compensation expense of \$ nil million related to the 158,051 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 nine months ended September 30, 2019, the Corporation incurred \$(0.2) million of share-based compensation expense (2018 – \$0.1 million) related to the 140,000 CSRSUs 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.

	Nine months ended September 30, 2019	Year ended December 31, 2018
Cash Settled Restricted Shares Units		
Outstanding, beginning of year	140,000	153,600
Settled in cash	-	(13,600)
Balance, end of period	140,000	140,000

17 Revenue

The following table includes a reconciliation of disaggregated revenue by reportable segment (Note 23). 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 September 30, 2019					
Canada	-	19.1	1.0	-	20.1
USA	-	4.0	-	-	4.0
PNG	15.2	-	-	-	15.2
Revenue from contracts with customers	15.2	23.1	1.0	-	39.3
Operating lease revenue	3.5	1.2	6.4	(0.8)	10.3
Total revenue	18.7	24.3	7.4	(0.8)	49.6

High Arctic Energy Services Inc.

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Three months ended September 30, 2018	Drilling Services	Production Services	Ancillary Services	Inter-Segment Elimination	Total
Canada	-	19.7	1.2	-	20.9
USA	-	0.4	-	-	0.4
PNG	12.9	-	-	-	12.9
Revenue from contracts with customers	12.9	20.1	1.2	-	34.2
Operating lease revenue	12.6	2.1	6.9	(1.1)	20.5
Total revenue	25.5	22.2	8.1	(1.1)	54.7

Revenue by Geography Nine months ended September 30, 2019	Drilling Services	Production Services	Ancillary Services	Inter-Segment Elimination	Total
Canada	-	58.5	2.6	-	61.1
USA	-	7.4	-	-	7.4
PNG	45.1	-	-	-	45.1
Revenue from contracts with customers	45.1	65.9	2.6	-	113.6
Operating lease revenue	12.9	2.2	16.4	(2.4)	29.1
Total revenue	58.0	68.1	19.0	(2.4)	142.7

Nine months ended September 30, 2018	Drilling Services	Production Services	Ancillary Services	Inter-Segment Elimination	Total
Canada	-	57.0	3.0	-	60.0
USA	-	0.4	-	-	0.4
PNG	33.9	-	-	-	33.9
Revenue from contracts with customers	33.9	57.4	3.0	-	94.3
Operating lease revenue	38.3	6.1	19.7	(2.9)	61.2
Total revenue	72.2	63.5	22.7	(2.9)	155.5

High Arctic Energy Services Inc.

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18 Expenses

Oilfield services expenses by nature:	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Personnel costs and personnel related costs	21.3	19.3	64.3	55.7
Drilling rig rental costs	4.7	5.0	14.2	14.1
Material and supplies costs	6.8	4.0	17.4	11.9
Equipment operating and maintenance costs	5.1	4.0	15.3	12.6
Other	1.1	1.2	3.6	3.6
Total	39.0	33.5	114.8	97.9

General and administrative expenses by nature:	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Personnel costs and personnel related costs	3.0	3.0	8.9	9.6
Professional, legal and consulting fees	0.2	0.2	0.9	0.9
Facility costs	0.1	0.1	0.4	0.3
Leases	0.2	0.2	0.5	0.7
Other	0.8	0.3	1.4	1.1
Total	4.3	3.8	12.1	12.6

19 Supplemental Cash Flow Information

Changes in non-cash working capital is comprised of:

Note	Three months ended September 30		Nine months ended September 30		
	2019	2018	2019	2018	
Accounts receivable	4	(2.9)	(7.0)	(0.3)	(4.1)
Inventory and prepaid expenses		0.7	0.4	1.0	(0.3)
Accounts payable and accrued liabilities	10	1.8	(3.3)	1.4	(5.3)
Income taxes payable		(0.1)	1.8	(0.3)	2.0
Income taxes receivable		(1.7)	-	(3.1)	-
Deferred revenue		(0.4)	(0.3)	(0.2)	(0.8)
Total		(2.6)	(8.4)	(1.5)	(8.5)

Related to:					
Operating activities		(2.7)	(9.4)	(0.7)	(9.2)
Investing activities		0.1	1.0	(0.8)	0.7
		(2.6)	(8.4)	(1.5)	(8.5)

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20 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 \$7.6 million by a customer and a third-party supplier for the Corporation's operations in PNG. The inventory is owned by this party 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 this party.

21 Capital Disclosures

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

	September 30, 2019	December 31, 2018
Shareholder's equity	212.5	234.2
Cash and cash equivalents	(12.1)	(31.5)
Total Capitalization	200.4	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.

22 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 previously comprised listed Canadian public company investment. These assets were carried at fair value on the Consolidated Statements of Financial Position. Fair value was 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.

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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. As at September 30, 2019, the Corporation has disposed of its investment in equity securities.

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. As at September 30, 2019, the Corporation had no amounts drawn on its credit facility.

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 nine months ended September 30, 2019, a 0.10 change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in an immaterial change in net earnings (loss) for the period as a result of changes in foreign exchange.

Credit Risk and Customers

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

The Corporation's accounts receivable 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 more than 10% of its consolidated revenues during the six months ended September 30, 2019. Sales to these two customers were approximately \$68.6 million and \$17.7 million, respectively, for the nine months ended September 30, 2019 (2018 - \$64.6 million, \$20.7 million and \$16.0 million). As at September 30, 2019, these two customers represented 34% and 7%, respectively, of outstanding accounts receivable (September 30, 2018 – three customers represented a total of 61%). Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with these customers.

High Arctic Energy Services Inc.

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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:

September 30, 2019	Beyond 5				Total
	1 Year	2-3 Years	4-5 Years	Years	
Accounts payable	22.0	-	-	-	22.0
Dividends payable	0.8	-	-	-	0.8
Lease liability	1.4	2.4	1.1	6.1	11.0
Total	24.2	2.4	1.1	6.1	33.8

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

23 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 snubbing assets from Precision Drilling 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 services.

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Corporate

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

Three months ended September 30, 2019	Drilling Services	Production Services	Ancillary Services	Corporate	Inter-Segment Elimination	Total
Revenue	18.7	24.3	7.4	-	(0.8)	49.6
Expenses						
Oilfield Services	15.0	21.4	3.4	-	(0.8)	39.0
General and administrative	1.0	1.6	0.3	1.4	-	4.3
Depreciation	2.5	2.2	2.3	0.2	-	7.2
Share-based compensation	-	-	-	(0.1)	-	(0.1)
	18.5	25.2	6.0	1.5	(0.8)	50.4
	0.2	(0.9)	1.4	(1.5)	-	(0.8)
Other (income)	-	-	-	(0.4)	-	(0.4)
Foreign exchange loss (gain)	-	-	-	(0.1)	-	(0.1)
Loss (gain) on sale of assets	-	-	-	-	-	-
Interest and finance expense	-	-	-	0.3	-	0.3
Earnings (losses) before income tax	0.2	(0.9)	1.4	(1.3)	-	(0.6)

Three months ended September 30, 2018	Drilling Services	Production Services	Ancillary Services	Corporate	Inter-Segment Elimination	Total
Revenue	25.5	22.2	8.1	-	(1.1)	54.7
Expenses						
Oilfield Services	13.9	18.1	2.6	-	(1.1)	33.5
General and administrative	1.4	1.3	0.2	0.9	-	3.8
Depreciation	2.4	2.8	1.3	-	-	6.5
Share-based compensation	-	-	-	0.3	-	0.3
	17.7	22.2	4.1	1.2	(1.1)	44.1
	7.8	-	4.0	(1.2)	-	10.6
Other expenses	-	-	-	0.2	-	0.2
Foreign exchange loss (gain)	-	-	-	(0.2)	-	(0.2)
Gain on sale of assets	-	-	(0.1)	0.2	-	0.1
Interest and finance expense	-	-	-	0.2	-	0.2
Earnings (losses) before income tax	7.8	-	4.1	(1.6)	-	10.3

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

Nine months ended September 30, 2019	Drilling Services	Production Services	Ancillary Services	Corporate	Inter-Segment Elimination	Total
Revenue	58.0	68.1	19.0	-	(2.4)	142.7
Expenses						
Oilfield Services	45.7	63.2	8.3	-	(2.4)	114.8
General and administrative	3.3	4.7	0.7	3.4	-	12.1
Depreciation	7.6	6.6	6.6	0.2	-	21.0
Share-based compensation	-	-	-	0.3	-	0.3
	56.6	74.5	15.6	3.9	(2.4)	148.2
	1.4	(6.4)	3.4	(3.9)	-	(5.5)
Other (income)	-	-	-	(1.1)	-	(1.1)
Foreign exchange loss (gain)	-	-	-	(0.3)	-	(0.3)
Loss (gain) on sale of assets	-	(0.1)	(0.7)	-	-	(0.8)
Interest and finance expense	-	-	-	0.7	-	0.7
Earnings (losses) before income tax	1.4	(6.3)	4.1	(3.2)	-	(4.0)
Property and equipment	55.0	92.4	31.0	0.2	-	178.6
Right-of-use assets	-	-	-	7.8	-	7.8
Total assets less deferred tax assets	100.6	113.0	33.7	1.5	-	248.8

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

Unaudited - Canadian \$ Million, except per share amounts

Nine months ended September 30, 2018	Drilling Services	Production Services	Ancillary Services	Corporate	Inter-Segment Elimination	Total
Revenue	72.2	63.5	22.7	-	(2.9)	155.5
Expenses						
Oilfield Services	41.0	52.0	7.8	-	(2.9)	97.9
General and administrative	4.6	4.3	0.7	3.0	-	12.6
Depreciation	7.2	8.0	4.1	-	-	19.3
Share-based compensation	-	-	-	1.2	-	1.2
	52.8	64.3	12.6	4.2	(2.9)	131.0
	19.4	(0.8)	10.1	(4.2)	-	24.5
Other expenses	-	-	-	0.8	-	0.8
Foreign exchange loss (gain)	-	-	-	0.5	-	0.5
Gain on sale of assets	-	-	(0.1)	-	-	(0.1)
Interest and finance expense	-	-	-	0.4	-	0.4
Earnings (losses) before income tax	19.4	(0.8)	10.2	(5.9)	-	22.9
Property and equipment	62.9	89.0	32.0	0.2	-	184.1
Total assets less deferred tax assets	113.4	109.2	47.2	2.0	-	271.8

2019	PNG	Canada	United States	Total
Revenue for the three months ended September 30, 2019	22.4	23.2	4.0	49.6
Revenue for the nine months ended September 30, 2019	68.6	66.7	7.4	142.7
Total assets less deferred tax assets at September 30, 2019	125.3	118.9	4.6	248.8

2018	PNG	Canada	United States	Total
Revenue for the three months ended September 30, 2018	30.0	24.3	0.4	54.7
Revenue for the nine months ended September 30, 2018	85.3	69.8	0.4	155.5
Total assets less deferred tax assets at September 30, 2018	147.4	124.0	0.4	271.8