HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2019 and 2018

Independent auditor's report

To the Shareholders of High Arctic Energy Services Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of High Arctic Energy Services Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of earnings (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

Other information

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

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

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

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

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

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

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

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Courtney Kolla.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 12, 2020

High Arctic Energy Services Inc.

Consolidated Statements of Financial Position

As at December 31, 2019 and 2018

Canadian $ Millions

	Notes	2019	2018
Assets			
Current assets			
Cash and cash equivalents		9.3	31.5
Accounts receivable	6	39.8	36.5
Short-term investments	7	-	1.0
Inventory	8	9.3	10.6
Income taxes receivable		3.3	-
Prepaid expenses		1.0	0.8
		62.7	80.4
Non-current assets			
Property and equipment	11	174.1	184.4
Right-of-use assets	9	7.4	-
Deferred tax asset	21	7.6	7.6
Total assets		**251.8**	**272.4**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	23.2	20.6
Income taxes payable		0.6	1.0
Dividend payable	17	0.8	0.8
Current portion of lease liability	13	1.6	-
Deferred revenue		0.7	0.2
Contingent liability	14	-	1.0
		26.9	23.6
Non-current liabilities			
Finance lease obligation	15	-	0.5
Lease liability	13	9.1	-
Unfavourable lease liability	16	-	2.8
Deferred tax liability	21	10.2	11.3
Total liabilities		**46.2**	**38.2**
Shareholders' equity		**205.6**	**234.2**
Total liabilities and shareholders' equity		**251.8**	**272.4**
Commitments and contingencies	27		

Approved by the Board of Directors:

(signed) "Doug Strong" Director (signed) "Michael Binnion" Director

See accompanying notes to these consolidated financial statements

	Notes	2019	2018
Revenue	22	185.5	203.3
Expenses			
Oilfield services	23	150.3	135.5
General and administration	23	15.8	17.0
Depreciation	9,11	28.3	25.7
Share-based compensation	20	0.5	1.4
		194.9	179.6
Operating earnings (loss)		**(9.4)**	**23.7**
Other income	14	(1.1)	-
Foreign exchange loss (gain)		(0.3)	0.8
Gain on sale of property and equipment	11	(2.8)	(0.1)
Interest and finance expense		1.1	0.6
Net earnings (loss) before income taxes		**(6.3)**	**22.4**
Current income tax expense	21	3.0	12.9
Deferred income tax recovery	21	(0.5)	(1.9)
		2.5	11.0
Net earnings (loss) for the year		**(8.8)**	**11.4**
Earnings (loss) per share:	19		
Basic and Diluted		(0.18)	0.22

	2019	2018
Net earnings (loss) for the year	(8.8)	11.4
Other comprehensive income (loss):		
Items that may be reclassified subsequently to net income (loss):		
Foreign currency translation gains (losses) for foreign operations	(5.4)	11.7
Items that may not be reclassified subsequently to net income (loss):		
Losses on short term investments, net of tax (Note 7)	-	(1.4)
Comprehensive income (loss) for the year	**(14.2)**	**21.7**

High Arctic Energy Services Inc.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

Canadian $ Millions

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total shareholders' equity
Balance at January 1, 2019		177.9	9.6	28.8	17.9	234.2
Net loss		-	-	-	(8.8)	(8.8)
Dividends	17	-	-	-	(9.9)	(9.9)
Other comprehensive income (loss) - foreign currency translation loss		-	-	(5.4)	-	(5.4)
Purchase of common shares for cancellation	19	(4.8)	(0.3)	-	-	(5.1)
Share-based payment transactions		-	0.6	-	-	0.6
Reclassification of loss on short-term investments	7			1.4	(1.4)	-
Balance at December 31, 2019		**173.1**	**9.9**	**24.8**	**(2.2)**	**205.6**

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total shareholders' equity
Balance at January 1, 2018		186.1	9.4	18.5	16.8	230.8
Net earnings		-	-	-	11.4	11.4
Dividends	17	-	-	-	(10.3)	(10.3)
Other comprehensive income - foreign currency translation gain		-	-	11.7	-	11.7
Other comprehensive income - loss on short-term investments	7	-	-	(1.4)	-	(1.4)
Purchase of common shares for cancellation	19	(8.7)	(0.9)	-	-	(9.6)
Share-based payment transactions		0.5	1.1	-	-	1.6
Balance at December 31, 2018		**177.9**	**9.6**	**28.8**	**17.9**	**234.2**

See accompanying notes to these consolidated financial statements

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

Canadian $ Millions

	Notes	2019	2018
Net earnings (loss) for the year		(8.8)	11.4
Adjustments for:			
Depreciation	9,11	28.3	25.7
Provision for unfavourable lease	16	-	(0.4)
Share-based compensation	20	0.5	1.4
Gain on sale of property and equipment	11	(2.8)	(0.1)
Foreign exchange loss (gain)		(0.3)	0.8
Deferred income tax recovery	21	(0.5)	(1.9)
Other income	14	(1.1)	-
		15.3	36.9
Net changes in items of working capital	26	(2.6)	5.2
Net cash generated from operating activities		12.7	42.1
Investing activities			
Additions of property and equipment	11	(14.8)	(9.8)
Business acquisitions	10	(8.3)	(8.0)
Sale of short term investments	7	1.0	-
Disposal of property and equipment	11	4.9	3.4
Net changes in items of working capital	26	(0.2)	0.8
Net cash used in investing activities		(17.4)	(13.6)
Financing activities			
Long-term debt proceeds	18	8.0	4.8
Long-term debt repayments	18	(8.0)	(4.8)
Dividend payments	17	(9.9)	(10.3)
Purchase of common shares for cancellation	19	(5.1)	(9.8)
Issuance of common shares, net of costs	19	-	0.4
Lease liability payments	13	(1.3)	-
Finance lease obligation payments	15	-	(1.0)
Net cash used in financing activities		(16.3)	(20.7)
Effect of exchange rate changes		(1.2)	1.6
Net change in cash and cash equivalents		(22.2)	9.4
Cash and cash equivalents - beginning of year		31.5	22.1
Cash and cash equivalents - end of year		**9.3**	**31.5**

See accompanying notes to these consolidated financial statements

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 ("US") and Canada.

As of December 31, 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 by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The Financial Statements of High Arctic for the year ended December 31, 2019 were approved by the Board of Directors on March 12, 2020.

3 Significant Accounting Policies

Basis of measurement

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

Principles of consolidation

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

Business Combinations

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

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

Foreign currency

a) Functional and presentation currency:
   Items included in the financial statements of each subsidiary of the Corporation are measured using the currency of the primary economic environment in which it operates (their "functional currency"). The Financial Statements of High Arctic are presented in Canadian dollars, which is the Corporation's functional currency.

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

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

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

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

Cash and cash equivalents

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

Financial instruments

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

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

Initial measurement of financial instruments

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

a) Cash and cash equivalents:
Cash and cash equivalents are classified as financial assets at fair value through profit or loss. Cash and cash equivalents are measured at fair value and unrealized gains or losses related to changes in fair value are reported in income.

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

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

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

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

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

e) Financial liabilities:
Financial liabilities are initially recognized at fair value when the outflow of economic benefit is probable and costs of the obligation can be measured reliably. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired. The Corporation does not have any financial liabilities designated at fair value through profit or loss.

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

Financial liabilities are classified as financial liabilities at fair value through earnings or financial liabilities at amortized cost. The Corporation determines the classification of its financial liabilities at initial recognition.

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

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

Property and equipment

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

Depreciation is recognized in the statement of earnings (loss) using selected methods over the estimated useful lives of the assets.

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

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

Inventory

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

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

Impairment of financial assets

The Corporation's accounts receivable are subject to the expected credit loss model under IFRS 9 *Financial Instruments ("IFRS 9")*. For accounts receivable, the Corporation applies the simplified approach to providing for expected credit losses which requires the use of the lifetime expected loss provision for all trade receivables.

In estimating the lifetime expected loss provision, the Corporation considers historical industry default rates as well as credit ratings of specific customers.

Impairment of non-financial assets

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

For the purpose of impairment testing, assets are grouped into the smallest group that generates cash inflows independent of other assets (CGU's). The value of the discounted cash inflows less the discounted cash outflows of the CGU is determined. If the carrying amount of the CGU exceeds its recoverable amount, an impairment loss is charged to the consolidated statements of earnings (loss) so as to reduce the carrying amount to its recoverable amount.

A previously recognized impairment loss is required to be reversed only if there has been a change in the estimates used to determine the CGU's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the CGU is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the CGU while impaired. Such reversal is recognized in the consolidated statements of earnings (loss).

Employee benefits

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

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

c) Share-based plans:
Stock Option Plan
The Corporation has a stock option plan that provides incentive for directors, management and certain employees. Options granted are measured at the fair value of the equity instruments at the grant date.

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

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

Executive and Director Share Incentive Plan
The Corporation had an Executive and Director Share Incentive Plan under which common shares could be issued to directors and executives. A share-based compensation amount for the common shares issued under the plan was measured as the number of common shares multiplied by the trading price of the Corporation's shares at the time of the grant and that amount was amortized over the vesting period. This plan was superseded by the performance share unit plan in 2018.

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

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

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

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

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

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

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

Provisions

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

The Corporation is involved in legal claims through the normal course of operations and these are recorded and /or disclosed as any other provision. The Corporation believes that any liabilities that may arise from such matters, to the extent not provided for, are not likely to have a material affect on the Financial Statements.

Revenue recognition

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

A portion of the Corporation's revenue is lease revenue and not within the scope of IFRS 15, as such portions of revenue received represents the customers' ability to direct the use of an asset belonging to the Corporation. The Corporation has applied judgement to determine the amount of revenue that relates to lease revenue when lease rates were not specifically identified.

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

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

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

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

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

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

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

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

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

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

Segment reporting

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

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

Leases

The Corporation has applied IFRS 16 *Leases* ("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, *Leases* ("IAS 17") and IFRIC 4, *Determining whether an Arrangement contains a lease* ("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 and at the 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 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 recognizes the lease payments associated with short-term leases as an expense on a straight-line basis over the lease term.

IFRS 16 brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. A right-of-use asset and corresponding liability will be recognized for all leases by the lessee except for short-term leases and leases of low value assets (see Note 4).

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 Changes in Accounting Policies

New standard adopted:

IFRS 16 was issued in January 2016 and replaces the previous guidance on leases, including IAS 17 and IFRIC 4. The standard provides a single recognition and measurement model to be applied to leases, with required recognition of asset and liabilities for most leases. On transition to IFRS 16 and at the 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.

The Corporation adopted IFRS 16 effective January 1, 2019. 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

Prior to January 1, 2019, the Corporation determined at contract inception whether an agreement was or contained a lease under IAS 17 and IFRIC 4. 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.

(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.

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

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 ("IAS 37")* onerous contract provision (unfavorable lease liability) 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 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%):

	December 31, 2018	Adjustments	Balance on Adoption January 1, 2019
Assets			
Right-of-use assets (Note 9)	-	8.0	8.0
Property and equipment	184.4	(0.6)	183.8
Liabilities			
Lease liability (Note 13)	-	(11.2)	(11.2)
Unfavourable lease liability (Note 16)	(2.8)	2.8	-
Accounts payable and accrued liabilities	(20.6)	0.5	(20.1)
Finance lease obligation (Note 15)	(0.5)	0.5	-
Total	**160.5**	**-**	**160.5**

The unfavourable lease liability and the finance lease obligation are replaced by a lease liability 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.

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 as disclosed in the Corporation's December 31, 2018 consolidated financial statements	14.5
Discounted commitment 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 upon adoption, January 1, 2019	**11.2**

5 Critical Accounting Judgements and Estimates

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

Critical accounting judgements

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

a) Allowance for doubtful accounts

The Corporation estimates the amount of expected credit losses for trade receivables with no financing component using a provision matrix. The provision matrix is based on historical loss experience and is adjusted for forward looking estimates based on current and future economic conditions using internal and externally sourced data. Judgement is required when applying this information to the expected credit loss and any adjustments as a result of this new information.

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

b) Deferred Income taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the Financial Statement amounts of existing assets and liabilities and their respective tax bases.

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

d) Functional currency

The determination of functional currency is based on the primary economic environment (including monetary policy) in which an entity operates. The functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity.

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

c) Identification of Cash Generating Units ("CGUs") & Impairment of property and equipment

Property and equipment are tested for impairment when events and or changes in circumstances indicate that the carrying amount may not be recoverable which involves both judgement and estimation. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units or CGUs).

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

The classification of assets and allocation of corporate assets in CGUs requires significant judgement and interpretation. Further, the factors considered in CGU classification include the integration between assets, shared infrastructures, the existence of common sales points, geography, geologic structure and the manner in which Management monitors and makes decisions about its operations. As such, the determination of a CGU involves considerable judgement and could have a significant impact on impairment losses and reversals. The recoverable amount is the higher of a CGU's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant CGU). Estimates of future cash flows used in the evaluation of impairment of assets are made using management's current operating forecasts, 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 CGUs carrying amount exceeds its expected recoverable amount.

Critical accounting estimates

Key sources of estimation uncertainty, not already discussed above include:

a) Depreciation

Depreciation of the Corporation's property and equipment incorporates estimates of useful lives, residual values and depreciation methodology that is estimated to best reflect usage. Equipment under construction is not depreciated until it is available for use. Included in property and equipment is equipment under a financing lease. All equipment is depreciated based on the straight-line method over the asset's useful life in years. Estimate details are presented in the table below.

The estimated expected useful lives, salvage values and basis of depreciation are as follows:

	Expected life	Salvage value	Basis of depreciation
Oilfield equipment			
Drilling rigs	5-15 years	Up to 10%	Straight line
Service rigs	5-20 years	Up to 10%	Straight line
Support and shop	7-10 years	Up to 5%	Straight line
Drilling support	7-10 years	Up to 5%	Straight line
Hydraulic workover and UB rigs	7-10 years	Up to 5%	Straight line
Snubbing	7-10 years	Up to 5%	Straight line
Nitrogen	7-10 years	Up to 5%	Straight line
Rentals and matting	5-10 years	Up to 5%	Straight line
Light vehicles	5-10 years	Up to 5%	Straight line
Heavy trucks	7-10 years	Up to 5%	Straight line
Buildings	20-25 years	Up to 10%	Straight line
Office equipment and computer hardware	3-5 years	Up to 5%	Straight line
Computer software	3-5 years	nil	Straight line
Leasehold improvements	Lease term or five years	nil	Straight line
Right of use assets			
Real estate	1-12 years	nil	Straight line
Vehicles	Lease term or five years	Up to15%	Straight line

b) Share-based compensation

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

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

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

6 Accounts Receivable

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

Aging and allowances for accounts receivable at December 31, 2019 and 2018 are as follows:

	2019	**2018**
Less than 31 days	14.6	17.4
31 to 60 days	16.0	11.3
61 to 90 days	3.8	5.0
Greater than 90 days	5.6	2.9
Allowance for doubtful accounts	(0.2)	(0.1)
Total	**39.8**	**36.5**

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

Canadian dollar	22.0	15.7
United States dollar (2019 - USD $13.8; 2018 - USD $15.4)	17.8	20.8
Total	**39.8**	**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. Note that the receivable amounts in the tables below are gross, before any allowance.

2019	**Less than 31 days**	**31 to 60 days**	**61-90 days**	**Over 90 days**	**Total**
Investment grade receivables	10.6	14.1	2.7	4.3	31.7
Non-investment grade receivables	4.0	1.9	1.1	1.3	8.3
Total receivables	**14.6**	**16.0**	**3.8**	**5.6**	**40.0**
Expected credit loss for investment grade	0.04%	0.06%	0.10%	0.30%	
Expected credit loss for non-investment grade	0.75%	1.00%	2.00%	4.00%	
Investment grade expected credit loss provision	(0.00)	(0.01)	(0.01)	(0.01)	(0.03)
Non-investment grade expected credit loss provision	(0.03)	(0.02)	(0.02)	(0.15)	(0.22)
Total allowance for doubtful accounts	(0.03)	(0.03)	(0.03)	(0.16)	(0.25)

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

2018	Less than 31 days	31 to 60 days	61-90 days	Over 90 days	Total
Investment grade receivables	14.1	8.7	4.3	2.5	29.6
Non-investment grade receivables	3.3	2.6	0.7	0.4	7.0
Total receivables	**17.4**	**11.3**	**5.0**	**2.9**	**36.6**
Expected credit loss for investment grade	0.04%	0.06%	0.10%	0.30%	
Expected credit loss for non-investment grade	0.75%	1.00%	2.00%	4.00%	
Investment grade expected credit loss provision	(0.01)	(0.00)	(0.01)	(0.01)	(0.02)
Non-investment grade expected credit loss provision	(0.02)	(0.03)	(0.02)	(0.01)	(0.08)
Total allowance for doubtful accounts	(0.03)	(0.03)	(0.02)	(0.02)	(0.10)

7 Short-Term Investments

High Arctic periodically invests in the common shares and debt instruments of certain publicly traded oil and gas service companies. During the year ended December 31, 2019, the Corporation disposed of its remaining interest in short-term investments (December 31, 2018 – fair value of $1.0 million) resulting in $nil gain or loss on disposal. As a result of this disposal, the previously recorded fair value losses amounting to $1.4 million, recorded as part of other comprehensive income, were reclassified to retained earnings/(deficit) for the year ended December 31, 2019.

8 Inventory

As at December 31, 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 years ended December 31, 2019 and 2018, the Corporation did not recognize an impairment on inventory.

9 Right-of-Use Assets

	Real Estate	Vehicles	Total
Cost			
Initial recognition, January 1, 2019 (Note 4c))	7.3	0.9	8.2
Additions	-	0.8	0.8
Balance, December 31, 2019	**7.3**	**1.7**	**9.0**
Accumulated Depreciation			
Initial recognition, January 1, 2019 (Note 4c))	-	(0.2)	(0.2)
Depreciation expense	(1.0)	(0.4)	(1.4)
Balance, December 31, 2019	(1.0)	(0.6)	(1.6)
Net book value as at December 31, 2019	**6.3**	**1.1**	**7.4**

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

10 Business Acquisitions

Precision Drilling Snubbing Assets

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 and has been allocated to oilfield equipment.

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 were expensed.

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 $2.4 million of revenue and $0.6 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 year ended December 31, 2019 would have increased to $189.6 million and decreased to ($7.9) million, respectively. The estimated pro forma revenue and net earnings (loss) 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.

Power Energy Holdings Ltd.

On August 16, 2018, High Arctic acquired the shares of Power Energy Holdings Ltd ("PEHL") which wholly owns Powerstroke Well Control Ltd and Powerstroke Well Control Inc (collectively "Powerstroke"). Powerstroke is a well service company, currently operating a total of eight snubbing units and a heavy capacity new build service rig and drilling package within Canada as well as the United States. This strategic business acquisition established an entry into the United States for High Arctic, where the potential for the expansion of well service offering was established.

High Arctic acquired the shares in PEHL by payment of cash in the amount of $7.0 million, after working capital adjustments. Included in the share purchase agreement was $1.0 million of contingent consideration related to a potential earn-out payment that was due in 2019, dependent on future performance. Ultimately, the performance targets were not met and this contingency was not paid out.

The acquisition was accounted for as a business combination using the acquisition method of accounting whereby the assets acquired, and the liabilities assumed were recorded at their estimated fair value on the acquisition date. No goodwill or gain on acquisition resulted from this transaction. Transaction costs associated with the acquisition were expensed when incurred.

The following table summarizes the allocation of the purchase price:

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

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

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

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

Saddle Well Services Inc.

On August 16, 2018, High Arctic acquired the assets of Saddle Well Services Inc by payment of cash in the amount of $1.2 million. The consideration of $1.2 million was allocated to equipment that is complementary to High Arctic's existing well servicing fleet.

The acquisition was accounted for as a business combination using the acquisition method of accounting whereby the assets acquired, and the liabilities assumed were recorded at their estimated fair value on the acquisition date. Transaction costs associated with the acquisition were expensed when incurred.

11 Property and Equipment

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

Cost:	Vehicles	Oilfield Equipment	Computer 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**
Additions	-	-	-	-	9.8	9.8
Finance lease obligation (Note 15)	-	13.4	-	-	-	13.4
Disposals	(0.9)	(1.3)	-	(2.5)	-	(4.7)
Transfers	0.1	7.6	0.3	-	(8.0)	-
Effect of foreign exchange	-	14.8	-	-	-	14.8
Balance, December 31, 2018	**10.3**	**349.0**	**3.5**	**10.8**	**3.7**	**377.3**
IFRS 16 adjustment (Note 9)	(0.9)	-	-	-	-	(0.9)
Balance, January 1, 2019	**9.4**	**349.0**	**3.5**	**10.8**	**3.7**	**376.4**
Additions	-	-	-	-	14.8	14.8
Acquisitions (Note10)	-	8.3	-	-	-	8.3
Disposals	(0.5)	(7.3)	-	-	-	(7.8)
Transfers	-	13.2	0.3	-	(13.5)	-
Effect of foreign exchange	-	(8.1)	-	-	(0.1)	(8.2)
Balance, December 31, 2019	**8.9**	**355.1**	**3.8**	**10.8**	**4.9**	**383.5**

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

Accumulated depreciation and impairments:	Vehicles	Oilfield Equipment	Computer 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**
IFRS 16 adjustment (Note 9)	(0.2)	-	-	-	-	(0.2)
Balance, January 1, 2019	**7.5**	**181.1**	**3.1**	**1.0**	**-**	**192.7**
Depreciation for the year	0.5	25.9	0.2	0.3	-	26.9
Disposals	(0.4)	(5.3)	-	-	-	(5.7)
Effect of foreign exchange	-	(4.5)	-	-	-	(4.5)
Balance, December 31, 2019	**7.6**	**197.2**	**3.3**	**1.3**	**-**	**209.4**
Carrying amounts of property and equipment:						
At December 31, 2018	2.6	167.9	0.4	9.8	3.7	184.4
At December 31, 2019	**1.3**	**157.9**	**0.5**	**9.5**	**4.9**	**174.1**

During 2019, the Corporation sold land, building and oilfield equipment for net cash proceeds of $4.9 million (2018 - $3.4 million).

Impairment of property and equipment

On December 31, 2019, the Corporation performed its annual assessment for impairment indicators and identified that the Company's market capitalization was less than the carrying amount of its net assets. As a result, the Corporation conducted an assessment of earnings before interest, tax, depreciation and amortization ("EBITDA") multiples for the Company's CGUs that were assessed as impacting the December 31, 2019 market capitalization. Based on this analysis, the Corporation completed an impairment test for three CGU's, namely, Well Servicing & Snubbing Operations, Nitrogen Operations and Canadian Rental Operations.

The recoverable amount was determined to be value-in-use and this calculation included discounted cash flow calculations using forecast prices and cost estimates (Level 3) based on expected future results for a period of five years, applying a discount rate of 15%. Cash flow projections beyond the five-year period covered by management's forecast were extrapolated based on a terminal value multiple.

As at December 31, 2019, the recoverable amounts of the Well Servicing & Snubbing Operations, Nitrogen Operations and Canadian Rental Operations CGU's exceeded their respective carrying values and no impairment loss was recognized.

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

The assumption estimates are disclosed in the following table:

As at December 31, 2019			
	Well Servicing & Snubbing Operations	Nitrogen Operations	Canadian Rental Operations
Utilization	10% - 70%	18% - 20%	9% of well servicing and snubbing revenue
Revenue and cost escalations	0% - 2%	0% - 2%	0% - 2%
Terminal value multiple (gross profit)	7.7x	7.7x	7.7x
Discount rate	15%	15%	15%

Neither a 1% increase in the discount rate, nor the impact of a 10% reduction in the expected future cash flows would have changed the outcome of the impairment test, whereby no impairment would be required to be recorded for the year ended December 31, 2019.

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, salvage values and discount rates.

12 Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are the following:

	December 31, 2019	December 31, 2018
Accounts payable	13.9	10.9
Accrued liabilities	6.2	7.0
Accrued payroll	3.1	2.0
Current portion - finance lease obligation	-	0.2
Current portion - Unfavourable lease liability	-	0.5
Total	**23.2**	**20.6**

13 Lease Liability

	Year ended December 31, 2019
Initial recognition, January 1, 2019 (Note 4c))	11.2
Additions	0.8
Lease payments	(1.8)
Interest expense	0.5
Balance as at December 31, 2019	**10.7**
Current	1.6
Non-current	9.1
	10.7

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

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.

The undiscounted cash flows relating to the lease liabilities are:

	Year ended December 31, 2019
Maturity analysis - contractual undiscounted cash flow	
Less than one year	1.8
One to five years	4.0
More than five years	7.1
Total undiscounted lease liabilities as at December 31, 2019	**12.9**

14 Other income

For the year ended December 31, 2019, no amount is payable under the contingent payment agreement arising from the Powerstroke business acquisition (December 31, 2018 - $1.0 million). The Corporation has calculated that no portion of the target was achieved, resulting in no pay out. The Corporation recognized other income of $1.0 million for the reduction of this contingent liability during the year ended December 31, 2019.

15 Finance Lease Obligation

As at December 31, 2018, future minimum lease payments for vehicles under a finance lease arrangement under IAS 17 totaled $0.7 million, of which $0.2 million has been included in the current portion of finance lease obligations as part of accounts payable and accrued liabilities and the remaining $0.5 million has been disclosed as a non-current liability.

During 2016, the Corporation received certain equipment under a finance lease with a purchase option after a twelve-month lease term as well as an option to extend the lease term by an additional twelve months. The fair value of the equipment of $2.5 million has been included with property and equipment with a corresponding lease obligation liability that is reduced by the principal portion of the monthly payments related to the principal of the lease. During 2018, the Corporation exercised an option to purchase certain leased equipment upon expiry of its lease term for $0.9 million.

See Note 4 for Changes in Accounting Policies due to adoption of IFRS 16 on January 1, 2019.

16 Unfavourable Lease

In 2016, High Arctic acquired the Production Services Division of Tervita which was accounted for as a business combination using the acquisition method of accounting. The Corporation assumed a real estate lease as part of this acquisition which was assessed to be unfavourable as the contracted lease rates were unfavourable relative to market rates, resulting in an unfavourable lease liability of $3.2 million as at December 31, 2018, of which $0.4 million was included in the current portion of accounts payable and accrued liabilities and the remaining $2.8 million was disclosed as a non-current liability at December 31, 2018.

See Note 4 for Changes in Accounting Policies due to adoption of IFRS 16 on January 1, 2019.

17 Dividend Payable

Dividends are recorded as a liability on the date of declaration by the Corporation’s Board of Directors. During the twelve months ended December 31, 2019, the Corporation declared dividends of $9.9 million (2018 - $10.3 million), of which $0.8 million was payable as of December 31, 2019 (December 31, 2018 - $0.8 million).
Since December 31, 2019, a monthly dividend of $0.0165 per share for each of January and February 2020 has been declared for a total of $1.6 million.

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

18 Loan Facility and Long-Term Debt

During September of 2019, High Arctic renewed its existing credit facility. As at December 31, 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 $45.0 million revolving loan facility available to High Arctic is limited to 60% of the net book value of the Canadian fixed assets plus 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement. As at December 31, 2019, no amounts were drawn on the credit facility (2018 - $ nil).

The Corporation's loan facility is subject to two financial covenants which are reported to the lender on a quarterly basis. These changed from the previous three financial covenants, and the facility was extended to a maturity date of August 31, 2021. As at December 31, 2019, the Corporation remains in compliance with the two financial covenants under the credit facility.

The first covenant requires the Funded Debt to covenant EBITDA ratio to be under 3.00 to 1.00 (previously 2.50 to 1.00) and the second covenant requires Covenant EBITDA to Interest Expense ratio to be a minimum of 3.00 to 1.0. Both are calculated on the last day of each fiscal quarter on a rolling four quarter basis. The covenant calculations at December 31, 2019 are:

Covenants	Required	December 31, 2019
Funded Debt to covenant EBITDA(1)(2)	3.00 : 1 Maximum	0.08 :1
Covenant EBITDA to Interest Expense(2)	3.00 : 1 Minimum	17.64 :1

(1) Funded debt to covenant EBITDA is defined as the ratio of consolidated Funded Debt to the aggregate covenant EBITDA for the trailing four quarters. Funded debt is the amount of debt provided and outstanding at the date of the covenant calculation.

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

There have been no changes to these financial covenants subsequent to December 31, 2019. Disclosures regarding the details associated with liability cash flow arising from financing activities are contained in the Consolidated Statements of Cash Flows.

19 Shareholders' Equity

(a) Share Capital

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

Common shares issued:	2019		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 20)	-	-	128,500	0.5
Issuance of performance share units (note 20)	11,668	-	3,334	-
Normal course issuer bid	(1,397,247)	(4.8)	(2,473,862)	(8.7)
Vested restricted shares (note 20)	-	-	20,000	0.1
Balance, end of year	49,623,432	173.1	51,009,011	177.9

No preferred shares have been issued by the Corporation and as such no preferred shares are outstanding at December 31, 2019 or 2018.

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

Issuance of common shares

For the twelve months ended December 31, 2019, no stock options (year ended December 31, 2018 – 128,500) were exercised for common shares of the Corporation (see Note 20).

Normal course issuer bid

On November 28, 2019, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,552,229 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. It commenced on December 2, 2019 and will terminate on December 1, 2020. No common shares have been purchased and cancelled under this NCIB as at December 31, 2019 or subsequent to this as of March 12, 2020.

On November 15, 2018, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,700,386 common shares, representing approximately 10 percent of the Corporation's public float, under a NCIB. The NCIB commenced on November 19, 2018 and was valid for one year. During the year ended December 31, 2019, the Corporation purchased and cancelled 1,397,247 common shares under this NCIB at a cost of $5.1 million. During the entire term of the NCIB from November 19, 2018 to November 18, 2019, 1,643,335 common shares were purchased and cancelled at a total cost of $6.0 million.

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

	2019	2018
Shares purchased and cancelled	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.

	2019		2018	
	Number of Shares	Loss per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings (loss) per share	49,982,170	(0.18)	51,713,059	0.22
Dilution effect of options	-	-	446,754	-
Weighted average number of common shares used in diluted earnings (loss) per share	49,982,170	(0.18)	52,159,813	0.22

For the twelve months ended December 31, 2019, there is no dilutive impact to the weighted number of common shares outstanding, as the effects of all options are anti-dilutive (2018 - 578,000 were excluded).

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

20 Share-based Compensation

The Corporation has various equity-based compensation plans under which the Corporation may issue up to 4,962,343 common shares (being 10% of all outstanding shares) as at December 31, 2019 (5,100,901 as at December 31, 2018). The following table summarizes the Corporation's outstanding grants for each equity-based compensation plan.

	2019	2018
Stock Options	955,000	1,343,000
Restricted Share Units	124,369	174,218
Performance Share Units	251,188	220,330
Deferred Share Units	161,729	159,054
Balance, end of year	1,492,286	1,896,602
Common shares available for grants	4,962,343	5,100,901
Percentage used of total available	30%	37%
Remaining common shares available for grants	3,470,057	3,204,299

Stock Option Plan

The Corporation has a Stock Option Plan under which options to purchase common shares may be granted to directors, management and certain employees. At December 31, 2019, a total of 955,000 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 2.7 years and 548,500 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
Cancelled / Forfeited	(249,500)	4.21
Expired	(644,800)	3.39
Total Outstanding December 31, 2018	**1,343,000**	**4.09**
Cancelled / Forfeited	(88,000)	3.53
Expired	(300,000)	5.28
Total Outstanding December 31, 2019	**955,000**	**3.77**

	Options Outstanding			Exercisable Options	
Exercise Price Range	**Number of Options**	**Remaining Contractual Life (Years)**	**Weighted Average Exercise Price ($)**	**Number of Options**	**Weighted Average Exercise Price ($)**
$3.35 to $3.71	180,000	1.7	3.52	153,000	3.55
$3.72 to $3.82	500,000	2.7	3.75	278,000	3.75
$3.83 to $4.47	250,000	3.5	3.87	100,000	3.87
$4.48 to $5.07	25,000	2.2	5.07	17,500	5.07
Total Outstanding December 31, 2019	**955,000**	**2.7**	**3.77**	**548,500**	**3.76**

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

Share-based compensation associated with stock options is a non-cash item and is measured at fair value in accordance with a Black Scholes valuation model. Share-based compensation expense recognized by the Corporation for the Stock Option Plan for the year ended December 31, 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 can grant share units to employees which upon vesting may be settled through the issuance of common shares of the Corporation.

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

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

	RSUs	PSUs	Total
Total Outstanding January 1, 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**
Granted	40,000	-	40,000
Exercised	(53,639)	-	(53,639)
Cancelled / Forfeited	(18,654)	(12,302)	(30,956)
Reinvested dividends	9,112	16,492	25,604
Total Outstanding December 31, 2019	**124,369**	**251,188**	**375,557**

During the twelve months ended December 31, 2019, 40,000 Restricted Share Units ("RSUs") and no Performance Share Units ("PSUs") were granted.

For the twelve months ended December 31, 2019, the Corporation incurred $0.5 million of share-based compensation expense (2018 - $0.7 million) related to the 375,557 units issued under the PSUP and an amount of $0.2 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.

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

	2019	2018
Total Outstanding, beginning of year	159,054	52,541
Granted	-	100,000
Exercised	(8,035)	-
Reinvested dividends	10,710	6,513
Total Outstanding December 31	**161,729**	**159,054**

For the twelve months ended December 31, 2019, the Corporation incurred share-based compensation expense of less than $0.1 million related to the 161,729 DSUs outstanding (2018 – $0.4 million).

Executive and Director Share Incentive Plan

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

During the year ended December 31, 2018, 20,000 shares issued under the EDSIP vested and were released. For the year ended December 31, 2018, the Corporation incurred share-based compensation expense of less than $0.1 million related to the EDSIP and no amounts remain to be amortized in future periods.

Cash Settled Restricted Share Units

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

	2019	2018
Outstanding, beginning of year	140,000	153,600
Settled in cash	-	(13,600)
Balance, end of year	140,000	140,000

For the year ended December 31, 2019, the Corporation recorded a $0.1 million recovery of share-based compensation expense (2018 – $0.2 million expense) 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.

21 Income Taxes

Income tax expense

	2019	2018
Current income tax expense		
Foreign	3.0	12.9
Current income tax expense	3.0	12.9
Deferred income tax expense (recovery)		
Canada	-	(3.1)
Foreign	(0.5)	1.2
Deferred income tax recovery	(0.5)	(1.9)
Total income tax expense	2.5	11.0

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

The provision for income taxes in the consolidated statements of earnings (loss) varies from the amount that would be computed by applying the expected future income tax rate of 26.55% (2018 – 27.00%) to the net earnings (loss) before income taxes. The difference results mainly from the decrease in Alberta's general provincial tax rate by 1% on June 28, 2019 and is detailed as follows:

	2019	2018
Net earnings (loss) before income taxes	(6.3)	22.4
Canadian statutory tax rate	26.55%	27.00%
Computed income tax expense (recovery) at the statutory rate	(1.7)	6.1
Increase (decrease) resulting from:		
Alberta tax rate change	3.4	-
Non-deductible expenses	0.2	0.4
Loss on investment	(0.4)	-
Change in unrecognized deferred tax asset	1.9	(1.3)
Return to provision	(0.8)	0.4
Tax rate differences for foreign subsidiaries	0.7	6.0
Other	(0.8)	(0.6)
Income tax expense	2.5	11.0
Effective tax rate	(39.6%)	49.1%

The Corporation's effective tax rate decreased to (39.6%) in 2019 from 49.1% in 2018. This decrease in effective tax rate is largely due to the Alberta tax rate change as a percentage of net earnings (loss).

Alberta's general provincial tax rate decreased on June 28, 2019 from 12% to 11% for the second half of 2019, to 10% for 2020, to 9% for 2021, and to 8% for 2022 and thereafter. As the Corporation applies the reduction of the future tax rates against deferred tax assets, it creates a deferred tax expense of $3.4 million, which was offset by recoveries on deferred tax liabilities amounting to $3.9 million, resulting in a deferred tax recovery of $0.5 million for the year ended December 31, 2019.

Income tax asset (liabilities)

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

	2019	2018
Deferred income tax assets by jurisdiction:		
Canada	7.6	7.6
	7.6	7.6
Deferred income tax liabilities by jurisdiction:		
Foreign	(10.2)	(11.3)
	(10.2)	(11.3)
Net deferred income tax assets (liabilities)	(2.6)	(3.7)

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

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

Deferred income tax asset	Jan 1, 2019	Recognized in earnings (loss)	Exchange Differences	Acquired on Acquisition	Dec 31, 2019
Non-capital losses	7.6	-	-	-	7.6
	7.6	-	-	-	7.6
Deferred income tax liabilities					
Property and equipment	(11.3)	0.5	0.6	-	(10.2)
	(11.3)	0.5	0.6	-	(10.2)
Net deferred income tax asset (liabilities)	(3.7)	0.5	0.6	-	(2.6)

Deferred income tax asset	Jan 1, 2018	Recognized in earnings (loss)	Exchange Differences	Acquired on Acquisition	Dec 31, 2018
Non-capital losses	7.0	3.2	-	-	10.2
	7.0	3.2	-	-	10.2
Deferred income tax liabilities					
Property and equipment	(8.3)	(2.2)	(0.8)	(2.6)	(13.9)
Accrued expenses	(0.9)	0.9	-	-	-
	(9.2)	(1.3)	(0.8)	(2.6)	(13.9)
Net deferred income tax asset (liabilities)	(2.2)	1.9	(0.8)	(2.6)	(3.7)

As at December 31, 2019 a net deferred tax asset of $7.6 million (2018 - $7.6 million) was recognized in the statement of financial position based on the probability that the Corporation will generate sufficient taxable income in the future to recover the deferred tax assets.

At each reporting period, the Corporation assesses its ability to utilize the deductible temporary differences based on its history of profitability, the current industry activity and the expectation of future taxable profitability. The deductible temporary differences for which no charges or benefits have been booked that relate to the available tax pools are $75.0 million (2018 - $58.0 million) and a potential tax benefit of $19.9 million (2018 - $15.7 million) at 27%.

At December 31, 2019, the total Canadian non-capital losses carried forward for income tax purposes was $130.5 million (2018 - $106.0 million) which expires in years 2027 through 2038. At December 31, 2019, the total US non-capital losses carried forward for income tax purposes was USD $2.3 million (2018 – USD $0.7 million) which can be carried forward indefinitely.

In addition, at December 31, 2019, the Canadian capital losses carried forward for income tax purposes was $39.6 million (2018 - $36.9 million) which can be carried forward indefinitely but only used against capital gains.

Earnings retained by subsidiaries that may be subject to dividend withholding taxes in the country of origin upon repatriation amounted to $34.7 million as at December 31, 2019 (2018 - $87.4 million). The average dividend withholding rate is estimated to be 15%.

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

22 Revenue

The following table includes a reconciliation of disaggregated revenue by reportable segment (Note 30). Revenue has been disaggregated by primary geographic location, type of service provided and the amount that relates to lease revenue.

Revenue by geographic location Year ended December 31, 2019	**Drilling Services**	**Production Services**	**Ancillary Services**	**Inter-Segment Elimination**	**Total**
Canada	-	77.3	3.8	-	81.1
USA	-	11.0	-	-	11.0
PNG	54.1	-	-	-	54.1
Revenue from contracts with customers	**54.1**	**88.3**	**3.8**	**-**	**146.2**
Canada	-	4.1	7.9	(3.0)	9.0
USA	-	-	-	-	-
PNG	17.4		12.9	-	30.3
Lease revenue	**17.4**	**4.1**	**20.8**	**(3.0)**	**39.3**
Total Revenue	**71.5**	**92.4**	**24.6**	**(3.0)**	**185.5**

Revenue by geographic location Year ended December 31, 2018	**Drilling Services**	**Production Services**	**Ancillary Services**	**Inter-Segment Elimination**	**Total**
Canada	-	74.3	4.1	-	78.4
USA	-	2.7	-	-	2.7
PNG	47.8	-	-	-	47.8
Revenue from contracts with customers	**47.8**	**77.0**	**4.1**	**-**	**128.9**
Canada	-	7.9	7.1	(3.7)	11.3
USA	-	-	-	-	-
PNG	45.2		17.9	-	63.1
Lease revenue	**45.2**	**7.9**	**25.0**	**(3.7)**	**74.4**
Total Revenue	**93.0**	**84.9**	**29.1**	**(3.7)**	**203.3**

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

23 Supplemental expense disclosure

The following tables provide expense detail by nature of expenditure:

Oilfield services	**2019**	**2018**
Personnel costs	85.0	76.7
Drilling rig rental costs	15.5	18.7
Material and supplies costs	22.2	17.3
Equipment operating and maintenance costs	20.9	17.8
Other	6.7	5.0
Total	**150.3**	**135.5**

General and administrative	**2019**	**2018**
Personnel costs	11.7	13.0
Professional, legal and consulting fees	1.1	1.2
Facility costs	0.6	0.4
Leases	0.6	1.0
Other	1.8	1.4
Total	**15.8**	**17.0**

24 Related party transactions

The table below summarizes all key management personnel compensation for the year ended December 31:

Compensation of key management	**2019**	**2018**
Directors' fees, salaries, wages and short-term employee benefits	1.5	2.1
Stock based compensation	0.3	1.0
Total	**1.8**	**3.1**

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

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

25 Significant Subsidiaries

The following table lists the Corporation's principal subsidiaries, the jurisdiction of formation or incorporation of such subsidiaries and the percentage of shares owned, directly or indirectly, by the Corporation as of December 31, 2019:

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

26 Supplemental Cash Flow Information

Changes in non-cash working capital is comprised of:

	Note	2019	2018
Accounts receivable	6	(3.3)	8.1
Inventory and prepaid expenses		1.1	0.3
Accounts payable and accrued liabilities	12	2.6	(3.1)
Income taxes payable		(0.4)	-
Income taxes receivable		(3.3)	1.5
Deferred revenue		0.5	(0.8)
Total		**(2.8)**	**6.0**
Related to:			
Operating Activities		(2.6)	5.2
Investing Activities		(0.2)	0.8
		(2.8)	**6.0**

Interest and income taxes paid during the year ending December 31, 2019 were $0.6 million and $0.7 million, respectively (2018 - $0.6 million and $11.3 million).

27 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 $7.4 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 contract, the Corporation must return an equivalent amount of inventory to these parties.

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

28 Capital

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

	2019	2018
Shareholders' equity	205.6	234.2
Cash and cash equivalents	(9.3)	(31.5)
Total Capitalization	**196.3**	**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.

29 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 amortized cost 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 (loss). 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 (loss). 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 (loss) 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 (loss). Financial assets at fair value previously comprised a listed Canadian public company investment. These assets are carried at fair value on the consolidated statements of financial position. Fair value is determined by quoted prices in active markets for identical assets (Level 1).
Accounts payable, accrued liabilities, dividends payable and the long-term debt are designated as other liabilities and are recorded at amortized cost.

Financial and Other Risks

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

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 includes short-term investments where changes in quoted prices on investments in equity securities impact the underlying value of investments.

Interest Rate Risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk as the long-term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates.

Foreign Currency Risk
Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results. The majority of the Corporation's international revenue and expenses are effectively transacted in USD and the Corporation does not actively engage in foreign currency hedging. For the year ended December 31, 2019, a 0.10 basis point change in the value of the Canadian dollar relative to the USD would have resulted in an immaterial change in net earnings (loss) for the year as a result of changes in foreign exchange.

PNG Foreign Currency Restrictions
The Corporation's ability to repatriate funds from PNG is controlled by the PNG government through their central bank. There are currently a number of monetary and currency exchange control measures in PNG that can impact the ability to repatriate funds, as well as establish requirements to transact in the local PNG currency (kina). While no significant issues have been experienced to date, there is no guarantee such restrictions will not exist or will not impact the Corporation's ability to transact or repatriate funds.

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

The Corporation's accounts receivable is predominantly with customers who explore for and develop petroleum reserves and are subject to industry credit risk consistent with the industry. The Corporation assesses the 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 consistent with 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 – two) which individually accounted for greater than 10% of its consolidated revenues during 2019. Sales to these two customers were approximately $84.3 million and $22.8 million for the year ended December 31, 2019 (2018 - $86.7 million and $23.2 million).

As at December 31, 2019, these two customers represented 41% of outstanding accounts receivable (December 31, 2018 – two customers represented a total of 50%). Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with these customers. As a result of the economic pressures currently faced by the oil and gas industry, a more thorough assessment of accounts receivable has been undertaken to take this changing environment into consideration.

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

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

30 Operating Segments

The Corporation determines its operating segments based on internal information reviewed by the executive management team and Board of Directors to allocate resources and assess performance. The Corporation's reportable operating segments 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. The revenue, expenses and assets related to the acquisitions of Precision Drilling snubbing assets, Powerstroke and Saddle Well Services have been reported within the Production Services segment. The Corporation operates in three geographic areas, Canada, US and PNG, and has 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, the US, and well servicing in PNG with its heli-portable workover rig.

Ancillary Services
Ancillary services segment consists of High Arctic's oilfield rental equipment in Canada and PNG Singapore 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.

Details associated with each segment are:

2019	Drilling Services	Production Services	Ancillary Services	Corporate	Inter-Segment Elimination	Total
Revenue	71.5	92.4	24.6	-	(3.0)	185.5
Expenses						
Oilfield services	56.4	85.9	11.0	-	(3.0)	150.3
General and administrative	4.2	6.5	0.9	4.2	-	15.8
Depreciation	10.1	9.8	8.1	0.3	-	28.3
Gain on sale of assets	-	(0.1)	(2.7)	-	-	(2.8)
	70.7	102.1	17.3	4.5	(3.0)	191.6
	0.8	**(9.7)**	**7.3**	**(4.5)**	**-**	**(6.1)**
Other income	-	-	-	(1.1)	-	(1.1)
Share-based compensation	-	-	-	0.5	-	0.5
Foreign exchange gain	-	-	-	(0.3)	-	(0.3)
Interest and finance expense	-	-	-	1.1	-	1.1
Earnings (loss) before income tax	**0.8**	**(9.7)**	**7.3**	**(4.7)**	**-**	**(6.3)**
Property and equipment	**51.9**	**90.8**	**31.2**	**0.2**	**-**	**174.1**
Right-of-use assets	**-**	**-**	**-**	**7.4**	**-**	**7.4**
Total assets less deferred tax assets	**98.6**	**111.0**	**33.0**	**1.6**	**-**	**244.2**

Tabular amounts are stated in millions of Canadian dollars, except per share amounts or unless otherwise noted

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

2019	PNG	Canada	United States	Inter-Country Elimination	Total
Revenue	84.4	92.3	11.0	(2.2)	185.5
Total assets less deferred tax assets	110.2	129.6	4.4	-	244.2

2018	PNG	Canada	United States	Inter-Country Elimination	Total
Revenue	109.9	90.7	2.7	-	203.3
Total assets less deferred tax assets	135.2	128.3	1.3	-	264.8