



## **HIGH ARCTIC ENERGY SERVICES INC.**

### **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED  
March 31, 2020 and 2019**

**(Unaudited)**

# HIGH ARCTIC ENERGY SERVICES INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

(Millions of Canadian Dollars)

	Note	As at March 31 2020	As at December 31 2019
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 28.3	\$ 9.3
Accounts receivable	3	33.1	39.8
Inventory		10.6	9.3
Income taxes receivable		3.4	3.3
Prepaid expenses		0.9	1.0
		76.3	62.7
<b>Non-current assets</b>			
Property and equipment	4	173.5	174.1
Right-of-use assets		7.2	7.4
Deferred tax asset		7.6	7.6
<b>Total Assets</b>		<b>\$ 264.6</b>	<b>\$ 251.8</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 21.6	\$ 23.2
Income taxes payable		0.5	0.6
Dividend payable		-	0.8
Current portion of lease liabilities	5	1.6	1.6
Deferred revenue		0.8	0.7
		24.5	26.9
<b>Non-current liabilities</b>			
Long-term debt	6	10.0	-
Lease liabilities	5	8.8	9.1
Deferred tax liability		10.9	10.2
<b>Total liabilities</b>		<b>54.2</b>	<b>46.2</b>
<b>Shareholders' equity</b>			
Share capital	7(a)	173.1	173.1
Contributed surplus		10.0	9.9
Accumulated other comprehensive income (loss)		33.3	24.8
Retained earnings (deficit)		(6.0)	(2.2)
		210.4	205.6
<b>Total liabilities and shareholders' equity</b>		<b>\$ 264.6</b>	<b>\$ 251.8</b>

Commitments and contingencies (Note 14)

Approved on behalf of the Corporation by:

(signed) "Doug Strong" Director

(signed) "Michael Binnion" Director

The accompanying notes are an integral part of these consolidated financial statements.

# HIGH ARCTIC ENERGY SERVICES INC.

## CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(Millions of Canadian Dollars, except per share amounts)

		Three months ended March 31	
	Note	2020	2019
<b>Revenue</b>	9	\$ 39.6	\$ 46.5
<b>Expenses</b>			
Oilfield services	10	32.3	37.3
General and administrative	10	4.6	3.7
Depreciation		7.3	7.0
Share-based compensation	8	0.1	0.3
		44.3	48.3
<b>Operating loss</b>		(4.7)	(1.8)
Foreign exchange gain		(0.1)	(0.2)
Gain on sale of property and equipment		(2.8)	(0.8)
Interest and finance expense		0.3	0.2
<b>Net loss before income taxes</b>		(2.1)	(1.0)
Current income tax expense		0.4	0.5
Deferred income tax recovery		(0.3)	(0.5)
		0.1	-
<b>Net loss</b>		\$ (2.2)	\$ (1.0)
<b>Net loss per share – basic and diluted</b>	7(b)	\$ (0.04)	\$ (0.02)

		Three months ended March 31	
	Note	2020	2019
<b>Net loss</b>		\$ (2.2)	\$ (1.0)
<b>Other comprehensive loss:</b>			
<i>Items that may be reclassified subsequently to net income:</i>			
Foreign currency translation gain (loss) for foreign operations		8.5	(3.0)
<b>Comprehensive income (loss) for the period</b>		\$ 6.3	\$ (4.0)

The accompanying notes are an integral part of these consolidated financial statements.

# HIGH ARCTIC ENERGY SERVICES INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(Millions of Canadian Dollars)

	Notes	Share capital Note 7(a)	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total shareholders' equity
<b>Balance at December 31, 2019</b>		\$ 173.1	\$ 9.9	\$ 24.8	\$ (2.2)	\$ 205.6
Net loss		-	-	-	(2.2)	(2.2)
Dividends		-	-	-	(1.6)	(1.6)
Other comprehensive income – foreign currency translation gain		-	-	8.5	-	8.5
Share-based compensation	8	-	0.1	-	-	0.1
<b>Balance at March 31, 2020</b>		\$ 173.1	\$ 10.0	\$ 33.3	\$ (6.0)	\$ 210.4
<b>Balance at December 31, 2018</b>		\$ 177.9	\$ 9.6	\$ 28.8	\$ 17.9	\$ 234.2
Net loss		-	-	-	(1.0)	(1.0)
Dividends		-	-	-	(2.5)	(2.5)
Other comprehensive income – foreign currency translation loss		-	-	(3.0)	-	(3.0)
Purchase of commons shares for cancellation	7(a)	(2.7)	(0.2)	-	-	(2.9)
Share-based compensation	8	-	0.3	-	-	0.3
<b>Balance at March 31, 2019</b>		\$ 175.2	\$ 9.7	\$ 25.8	\$ 14.4	\$ 225.1

The accompanying notes are an integral part of these consolidated financial statements.

# HIGH ARCTIC ENERGY SERVICES INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Millions of Canadian Dollars)

		Three months ended March 31	
	Note	2020	2019
Net loss		\$ (2.2)	\$ (1.0)
Adjustments for:			
Depreciation		7.3	7.0
Share-based compensation	8	0.1	0.3
Gain on sale of property and equipment	4	(2.8)	(0.8)
Foreign exchange gain		(0.1)	(0.2)
Deferred income tax recovery		(0.3)	(0.5)
		2.0	4.8
Changes in non-cash working capital	11	6.6	(4.8)
<b>Cash flows from operating activities</b>		<b>8.6</b>	<b>-</b>
<b>Investing activities</b>			
Additions of property and equipment	4	(1.9)	(2.6)
Disposal proceeds, property and equipment	4	4.9	1.4
Sale of short-term investments		-	0.1
Changes in non-cash working capital	11	(1.1)	(0.3)
		1.9	(1.4)
<b>Cash flows from (used in) investing activities</b>		<b>1.9</b>	<b>(1.4)</b>
<b>Financing activities</b>			
Dividend payments		(1.6)	(2.5)
Long-term debt proceeds	6	10.0	-
Purchase of common shares for cancellation	7(a)	-	(2.9)
Lease liability payments	5	(0.5)	(0.4)
Changes in non-cash working capital	11	(0.8)	-
		7.1	(5.8)
<b>Cash flows from (used in) financing activities</b>		<b>7.1</b>	<b>(5.8)</b>
<b>Effect of foreign exchange rate changes</b>		<b>1.4</b>	<b>(1.3)</b>
<b>Change in cash</b>		<b>19.0</b>	<b>(8.5)</b>
Cash, beginning of period		9.3	31.5
<b>Cash, end of period</b>		<b>\$ 28.3</b>	<b>\$ 23.0</b>

The accompanying notes are an integral part of these consolidated financial statements.

# HIGH ARCTIC ENERGY SERVICES INC.

## Notes to the Consolidated Financial Statements

As at and for the three months ended March 31, 2020 and 2019 (Unaudited)

*(Tabular amounts are stated in millions of Canadian Dollars, except per share amounts and/or unless otherwise stated)*

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### 1. Nature of Business

High Arctic Energy Services Inc. ("High Arctic" or the "Corporation") is incorporated under the laws of Alberta, Canada and is a publicly traded corporation listed on the Toronto Stock Exchange under the symbol "HWO". High Arctic is engaged in 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.

The Corporation's head office address is located at Suite 500, 700 – 2<sup>nd</sup> Street SW, Calgary, Alberta, Canada T2P 2W1.

As of March 31, 2020, 21,916,314 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 Presentation

#### (a) Statement of compliance

These condensed interim consolidated financial statements ("Consolidated Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, including International Accounting Standard 34 – Interim Financial Reporting.

The Consolidated Financial Statements were authorized for issue by the Board of Directors on May 14, 2020.

#### (b) Basis of preparation

The Consolidated Financial Statements follow the same accounting policies and methods of computation as the annual financial statements for the year ended December 31, 2019.

The disclosures provided below are incremental to those included as part of the annual financial statements. Certain information and disclosures normally included in the notes to the annual financial statements have been condensed or have been/will be disclosed on an annual basis only. Accordingly, these Consolidated Financial Statements should be read in conjunction with the annual financial statements for the year ended December 31, 2019.

#### (c) Recent developments and impact on estimation uncertainty

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in financial markets. The pandemic adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil as well as natural gas, impacting High Arctic's customers and High Arctic's business. Crude oil prices have also been severely impacted by increased global supply due to disagreements over production restrictions between the Organization of Petroleum Exporting Countries ("OPEC") and non-OPEC members, primarily Saudi Arabia and Russia. As a result of declining commodity prices and financial markets, the Corporations' share price and market capitalization significantly declined from December 31, 2019.

The full extent of the impact of COVID-19 on the Corporation's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus. These uncertainties may persist beyond when it is determined how to contain the virus or treat its impact.

# HIGH ARCTIC ENERGY SERVICES INC.

## Notes to the Consolidated Financial Statements

As at and for the three months ended March 31, 2020 and 2019 (Unaudited)

(Tabular amounts are stated in millions of Canadian Dollars, except per share amounts and/or unless otherwise stated)

The outbreak presents uncertainty and risk with respect to the Corporation, its performance, and estimates and assumptions used by Management in the preparation of financial results. A full list of the key sources of estimation uncertainty can be found in the Corporation's annual Consolidated Financial Statements for the year ended December 31, 2019. The outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare the Consolidated Financial Statements, particularly related to:

- i) Recoverable amounts of cash-generating units ("CGUs") as it relates to impairment testing on property and equipment;
- ii) Estimated credit losses as it relates to accounts receivable from customers who operate in the energy sector and are equally impacted by these same COVID-19 issues; and
- iii) Tax provisions where estimates are made of annual taxable income and also estimates regarding recoverability of deferred tax assets.

### 3. Accounts receivable

The aging and allowance for doubtful accounts associated with accounts receivable was as follows:

	As at March 31, 2020	As at December 31, 2019
Less than 31 days	\$ 17.4	\$ 14.6
31 to 60 days	10.4	16.0
61 to 90 days	2.0	3.8
Greater than 90 days	3.7	5.6
Allowance for doubtful accounts	(0.4)	(0.2)
<b>Total</b>	<b>\$ 33.1</b>	<b>\$ 39.8</b>

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

	As at March 31, 2020	As at December 31, 2019
Canadian dollars	\$ 18.4	\$ 22.0
US dollars ("USD")		
(2020 – USD \$10.4; 2019 - \$13.8)	14.7	17.8
<b>Total</b>	<b>\$ 33.1</b>	<b>\$ 39.8</b>

The Corporation applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, *Financial Instruments*, which permits the use of lifetime expected credit loss provision for all trade receivables. 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. Further, High Arctic aggregated its' accounts receivable into groups that share similar credit risk characteristics, with an understanding of what drives each groups' credit risk. The expected credit losses also incorporate forward looking information.

# HIGH ARCTIC ENERGY SERVICES INC.

## Notes to the Consolidated Financial Statements

As at and for the three months ended March 31, 2020 and 2019 (Unaudited)

(Tabular amounts are stated in millions of Canadian Dollars, except per share amounts and/or unless otherwise stated)

The details of this approach as at March 31, 2020 was as follows:

<i>(\$ millions, unless otherwise noted)</i>	Less than 31 days	31-60 days	61-90 days	Over 90 days	Total
Investment grade receivables	\$ 13.0	\$ 7.7	\$ 1.3	\$ 2.0	\$ 24.0
Non-investment grade receivables	4.4	2.7	0.7	1.7	9.5
Total receivables	\$ 17.4	\$ 10.4	\$ 2.0	\$ 3.7	\$ 33.5
Expected credit loss for investment grade (%)	0.04	0.06	0.10	0.30	-
Expected credit loss for non-investment grade (%)	0.75	5.00	10.00	10.00	-
Investment grade expected credit loss provision	\$ (0.01)	\$ -	\$ -	\$ -	\$ (0.01)
Non-investment grade expected credit loss provision	(0.03)	(0.13)	(0.07)	(0.17)	(0.40)
<b>Total allowance for doubtful accounts</b>	<b>\$ (0.04)</b>	<b>\$ (0.13)</b>	<b>\$ (0.07)</b>	<b>\$ (0.17)</b>	<b>\$ (0.41)</b>

The details of this approach as at December 31, 2019 was as follows:

<i>(\$ millions, unless otherwise noted)</i>	Less than 31 days	31-60 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	\$ -	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.03)
Non-investment grade expected credit loss provision	(0.03)	(0.02)	(0.02)	(0.15)	(0.22)
<b>Total allowance for doubtful accounts</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>	<b>\$ (0.16)</b>	<b>\$ (0.25)</b>

The increase of \$0.2 million associated with the total allowance for doubtful accounts as compared to December 31, 2019 are attributable to increases in the expected credit losses, in particular amounts over 60 days, any estimated impacts associated with the COVID-19 pandemic and the implications of this to the Corporation's ability to collect outstanding receivables.

# HIGH ARCTIC ENERGY SERVICES INC.

## Notes to the Consolidated Financial Statements

As at and for the three months ended March 31, 2020 and 2019 (Unaudited)

(Tabular amounts are stated in millions of Canadian Dollars, except per share amounts and/or unless otherwise stated)

### 4. Property and equipment

<b>Cost</b>	<b>Vehicles</b>	<b>Oilfield equipment</b>	<b>Computer hardware &amp; office equipment</b>	<b>Land &amp; building</b>	<b>Work-in-progress</b>	<b>Total</b>
At December 31, 2018	\$ 10.3	\$ 349.0	\$ 3.5	\$ 10.8	\$ 3.7	\$ 377.3
IFRS 16, initial adoption	(0.9)	-	-	-	-	(0.9)
Additions	-	-	-	-	14.8	14.8
Acquisitions	-	8.3	-	-	-	8.3
Dispositions	(0.5)	(7.3)	-	-	-	(7.8)
Transfers	-	13.2	0.3	-	(13.5)	-
Effect of foreign exchange	-	(8.1)	-	-	(0.1)	(8.2)
At December 31, 2019	8.9	355.1	3.8	10.8	4.9	383.5
Additions	-	-	-	-	1.9	1.9
Dispositions	(0.1)	(8.2)	-	-	-	(8.3)
Transfers	-	1.5	0.3	-	(1.8)	-
Effect of foreign exchange	-	11.7	0.1	-	0.4	12.2
<b>At March 31, 2020</b>	<b>\$ 8.8</b>	<b>\$ 360.1</b>	<b>\$ 4.2</b>	<b>\$ 10.8</b>	<b>\$ 5.4</b>	<b>\$ 389.3</b>
<b>Accumulated depreciation &amp; impairment</b>	<b>Vehicles</b>	<b>Oilfield equipment</b>	<b>Computer hardware &amp; office equipment</b>	<b>Land &amp; building</b>	<b>Work-in-progress</b>	<b>Total</b>
At December 31, 2018	\$ 7.7	\$ 181.1	\$ 3.1	\$ 1.0	\$ -	\$ 192.9
IFRS 16, initial adoption	(0.2)	-	-	-	-	(0.2)
Depreciation	0.5	25.9	0.2	0.3	-	26.9
Dispositions	(0.4)	(5.3)	-	-	-	(5.7)
Effect of foreign exchange	-	(4.5)	-	-	-	(4.5)
At December 31, 2019	7.6	197.2	3.3	1.3	-	209.4
Depreciation	0.1	6.7	0.1	0.1	-	7.0
Dispositions	-	(6.2)	-	-	-	(6.2)
Effect of foreign exchange	-	5.5	0.1	-	-	5.6
<b>At March 31, 2020</b>	<b>\$ 7.7</b>	<b>\$ 203.2</b>	<b>\$ 3.5</b>	<b>\$ 1.4</b>	<b>\$ -</b>	<b>\$ 215.8</b>
<b>Net book value</b>						
At December 31, 2019	1.3	157.9	0.5	9.5	4.9	174.1
<b>At March 31, 2020</b>	<b>\$ 1.1</b>	<b>\$ 156.9</b>	<b>\$ 0.7</b>	<b>\$ 9.4</b>	<b>\$ 5.4</b>	<b>\$ 173.5</b>

For the three-month period ended March 31, 2020, High Arctic disposed of property and equipment and received proceeds of \$4.9 million (2019 - \$1.4 million), resulting in a gain on disposal of \$2.8 million (2019 - \$0.8 million).

# HIGH ARCTIC ENERGY SERVICES INC.

## Notes to the Consolidated Financial Statements

As at and for the three months ended March 31, 2020 and 2019 (Unaudited)

(Tabular amounts are stated in millions of Canadian Dollars, except per share amounts and/or unless otherwise stated)

At March 31, 2020, High Arctic determined that indicators of impairment existed within three of the Corporation's CGUs. These indicators arose due to the unprecedented worldwide impact on businesses as a result of the COVID-19 pandemic, together with the simultaneous downward pressure on oil and natural gas commodity prices caused by oversupply conditions as well as pricing strategies by global players.

Testing was completed and no impairment resulted, as the calculated recoverable amount associated with the Corporation's CGUs was higher than their carrying amounts. The impacted CGUs were the Well Servicing & Snubbing Operations, Nitrogen Operations and Canadian Rental Operations.

Recoverable value is calculated as the greater of value in use and fair value less costs of disposal. At March 31, 2020, value in use was the relevant recoverable amount to use in the impairment calculations, calculated as the future five year discounted net cash flows expected to be derived from the CGU's business, using forecast prices and cost estimates. Cash flows beyond the five year forecast were extrapolated using a terminal value multiple. The key assumptions used for the impairment calculations were as follows:

	Well Servicing & Snubbing Operations	Nitrogen Operations	Canadian Rental Operations
Revenue and cost escalations	0% - 2%	0% - 2%	0% - 2%
Terminal value multiple (gross profit)	7.7x	7.7x	7.7x
Discount rate – pre tax	15%	15%	15%

With all other variables constant, had the discount rate associated with the impairment calculation increased by 1%, the impairment recorded would have been \$0.7 million. Similarly, had the cash flows decreased by 10%, the impairment recorded would have been \$2.7 million.

No impairment triggers were identified relating to property and equipment as at March 31, 2019.

## 5. Lease liabilities

	Total
Balance as at December 31, 2019	\$ 10.7
Additions	0.1
Finance expense	0.1
Lease payments	(0.5)
<b>At March 31, 2020</b>	<b>\$ 10.4</b>
	Total
Current	\$ 1.6
Non-current	8.8
<b>At March 31, 2020</b>	<b>\$ 10.4</b>

The lease liabilities noted above relate to various types of real estate assets and vehicles which are recorded as right-of-use assets.

The undiscounted cash flows relating to the lease liabilities at March 31, 2020 are as follows:

	Total
Less than one year	\$ 1.8
One to five years	4.0
More than five years	6.8
<b>Total undiscounted liabilities</b>	<b>\$ 12.6</b>

# HIGH ARCTIC ENERGY SERVICES INC.

## Notes to the Consolidated Financial Statements

As at and for the three months ended March 31, 2020 and 2019 (Unaudited)

(Tabular amounts are stated in millions of Canadian Dollars, except per share amounts and/or unless otherwise stated)

### 6. Loan facility and long-term debt

	Three months ended March 31, 2020	Year ended December 31, 2019
Total facility	\$ 45.0	\$ 45.0
Amount drawn	(10.0)	-
<b>Remaining facility available</b>	<b>\$ 35.0</b>	<b>\$ 45.0</b>

In the third quarter of 2019, High Arctic renewed its' existing credit facility. As at March 31, 2020, High Arctic's credit facilities consisted of a \$45.0 million revolving loan facility which 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 March 31, 2020, \$10.0 million has been drawn on the credit facility (December 31, 2019 - \$ nil). Interest, which is independent of standby fees, is charged monthly at prime plus an applicable margin which fluctuates based on the Funded Debt to covenant EBITDA ratio (defined below), where the applicable margin can range between 0.5% – 1.5% of the outstanding balance. Standby fees also fluctuate based on the Funded Debt to covenant EBITDA ratio and range between 0.35% and 0.60% of the undrawn balance.

The Corporation's loan facility is subject to two financial covenants which are reported to the lender on a quarterly basis. As at March 31, 2020, 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 3.0 to 1 and the second covenant requires covenant EBITDA to Interest Expense ratio to be a minimum of 3.0 to 1. Both are calculated on the last day of each fiscal quarter on a rolling four quarter basis.

The covenant calculations at March 31, 2020 are:

Covenants	Required	As at March 31, 2020
Funded Debt to covenant EBITDA <sup>(1)(2)</sup>	3.0 : 1 Maximum	<b>0.65 : 1</b>
Covenant EBITDA to Interest expense <sup>(2)</sup>	3.0 : 1 Minimum	<b>16.1 : 1</b>

<sup>(1)</sup> Funded debt to 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.

<sup>(2)</sup> 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.

### 7. Shareholders' equity

#### a) Share capital

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. No preferred shares have been issued by the Corporation.

# HIGH ARCTIC ENERGY SERVICES INC.

## Notes to the Consolidated Financial Statements

As at and for the three months ended March 31, 2020 and 2019 (Unaudited)

(Tabular amounts are stated in millions of Canadian Dollars, except per share amounts and/or unless otherwise stated)

	Three months ended March 31, 2020		Year ended December 31, 2019	
	Shares	Amount	Shares	Amount
Common shares issued and outstanding:				
Balance, beginning of year	49,623,432	\$ 173.1	51,009,011	\$ 177.9
Issuance of performance share units (Note 8)	-	-	11,668	-
Normal course issuer bid	-	-	(1,397,247)	(4.8)
<b>Balance, end of period</b>	<b>49,623,432</b>	<b>\$ 173.1</b>	<b>49,623,432</b>	<b>\$ 173.1</b>

For the three months ended March 31, 2020, no stock options were exercised for common shares of the Corporation (2019 – none). The Corporation suspended its' monthly dividend in March 2020.

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 were purchased and cancelled under this NCIB up to and including March 31, 2020.

For the three months ended March 31, 2019, 770,151 common shares were repurchased and cancelled under the prior year's November 15, 2018 NCIB for consideration of \$2.9 million, with \$2.7 million charged to share capital, and \$0.2 million charged to contributed surplus.

### 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, Units under the Performance Share Unit Plan, Director Share Units are considered in this calculation.

There is no dilutive impact to the weighted number of common shares outstanding for the three months ended March 31, 2020, as the effects of all options and Units are anti-dilutive.

For the three months ended March 31, 2019, 578,000 stock options were excluded in the calculation of diluted earnings per share as the effect would have been anti-dilutive. Those that were dilutive are presented in the table below.

	Three Months Ended			
	March 31, 2020		March 31, 2019	
	Number of Shares	Loss per Share	Number of Shares	Loss per Share
Weighted average number of common shares used in basic earnings per share	49,623,432	\$ (0.04)	50,788,177	\$ (0.02)
Dilutive impact of options	-	-	424,793	-
Weighted average number of common shares used in diluted earnings per share	49,623,432	\$ (0.04)	51,212,970	\$ (0.02)

### 8. Share-based compensation

The Corporation has various equity-based compensation plans under which up to 4,962,343 common shares (being 10% of all outstanding shares) may be issued as at March 31, 2020.

# HIGH ARCTIC ENERGY SERVICES INC.

## Notes to the Consolidated Financial Statements

As at and for the three months ended March 31, 2020 and 2019 (Unaudited)

(Tabular amounts are stated in millions of Canadian Dollars, except per share amounts and/or unless otherwise stated)

The following table summarizes the Corporation's outstanding grants for each equity-based compensation plan:

	Three months ended March 31, 2020	Year ended December 31, 2019
Stock options	573,500	955,000
Performance share unit plan – restricted units	128,632	124,369
Performance share unit plan – performance units	245,376	251,188
Deferred share units	167,272	161,729
<b>Balance, end of period</b>	<b>1,114,780</b>	<b>1,492,286</b>
Common shares available for grants	4,962,343	4,962,343
Percentage used of total available	22%	30%
<b>Remaining common shares available for grants</b>	<b>3,847,563</b>	<b>3,470,057</b>

### Stock Option Plan

The Corporation has a Stock Option Plan under which options to purchase common shares may be granted to directors, management and certain employees. At March 31, 2020, a total of 573,500 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, another 30% after the second anniversary date and the balance after the third anniversary date. The options have an average remaining contractual life of 2.2 years and 510,500 options are currently vested and eligible to be exercised.

Details regarding the stock options and associated changes and weighted average exercise prices are as follows:

	Number of Stock Options	Weighted Average Exercise Price
At December 31, 2018	1,343,000	\$ 4.09
Expired	(300,000)	5.28
Forfeited/Cancelled	(88,000)	3.53
At December 31, 2019	955,000	3.77
Expired	(50,000)	3.64
Forfeited/Cancelled	(331,500)	3.79
<b>At March 31, 2020</b>	<b>573,500</b>	<b>\$ 3.77</b>

Exercise price ranges	Outstanding number of options	Weighted average remaining life of those options outstanding (years)	Weighted average exercise price of outstanding options (\$)	Exercisable number of options	Weighted average exercise price of options that are exercisable (\$)
\$3.35 - \$3.71	118,000	1.5	3.49	103,000	3.51
\$3.72 - \$3.82	330,500	2.2	3.75	282,500	3.75
\$3.83 - \$4.47	100,000	3.2	3.87	100,000	3.87
\$4.48 - \$5.07	25,000	2.0	5.07	25,000	5.07
<b>At March 31, 2020</b>	<b>573,500</b>	<b>2.2</b>	<b>3.77</b>	<b>510,500</b>	<b>3.79</b>

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During the three-month period ended March 31, 2020, the Corporation recorded share-based compensation expense of \$nil (2019 – \$nil) relating to the stock option plan. For the three months ended March 31, 2020, 322,500 unvested stock options were forfeited as a result of restructuring, which included the reduction of personnel. Subsequent to March 31, 2020, 237,500 vested stock options are expected to be cancelled also as a result of this restructuring.

No stock options were granted during the three-month period ended March 31, 2020 or March 31, 2019.

### Performance Share Unit Plan (“PSUP”)

On May 10, 2017, the Corporation’s shareholders approved a 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.

Share units granted may be performance or restricted share units (collectively, “Units”). Units granted which have performance vesting conditions (“PSUs”), vest at the discretion of the Board of Directors, while Restricted Share Units (“RSUs”), 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. All Units expire at the end of the third calendar year from issuance date.

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

Details regarding the PSUP Units and related activity is as follows:

	RSUs	PSUs	Total
At December 31, 2018	147,550	246,998	394,548
Granted	40,000	-	40,000
Exercised	(53,639)	-	(53,639)
Forfeited/Cancelled	(18,654)	(12,302)	(30,956)
Dividends reinvested	9,112	16,492	25,604
At December 31, 2019	124,369	251,188	375,557
Forfeited/Cancelled	-	(14,421)	(14,421)
Dividends reinvested	4,263	8,609	12,872
<b>At March 31, 2020</b>	<b>128,632</b>	<b>245,376</b>	<b>374,008</b>

During the three months ended March 31, 2020 and 2019, no Units were granted. For the three months ended March 31, 2020, \$0.1 million of share-based compensation expense was recorded (2019 - \$0.2 million) associated with these Units.

### Deferred Share Units (“DSUs”)

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.

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Details regarding the DSUs and related activity is as follows:

	Three months ended March 31, 2020	Year ended December 31, 2019
Outstanding, beginning of year	161,729	159,054
Exercised	-	(8,035)
Dividends re-invested	5,543	10,710
<b>Outstanding, end of period</b>	<b>167,272</b>	<b>161,729</b>

For the three-month period ended March 31, 2020 and 2019, \$nil share-based compensation was recorded relating to the DSUs.

### Cash Settled Restricted Share Units ("CSRSUs")

Prior to the establishment of the PSUP, the Corporation issued CSRSUs to certain employees. For the three-month period ended March 31, 2020, the Corporation recorded \$nil (2019 – less than \$0.1 million) of share-based compensation expense relating to the CSRSUs. The number of CSRSUs outstanding of 140,000 has remained unchanged since December 31, 2018, with no further grants, settlements or cancellations/forfeitures.

## 9. Revenue

The following table includes a reconciliation of disaggregated revenue by reportable segment (Note 13). Revenue has been disaggregated by primary geographic location, type of service provided and the amount that relates to lease revenue.

Three months ended March 31, 2020	Drilling Services	Production Services	Ancillary Services	Inter- Segment Elimination	Total
Canada	\$ -	\$ 18.9	\$ 0.7	\$ -	\$ 19.6
US	-	1.5	-	-	1.5
PNG	11.0	-	-	-	11.0
Revenue from contracts with customers	11.0	20.4	0.7	-	32.1
Operating lease revenue	2.9	1.4	3.8	(0.6)	7.5
<b>Total revenue</b>	<b>\$ 13.9</b>	<b>\$ 21.8</b>	<b>\$ 4.5</b>	<b>\$ (0.6)</b>	<b>\$ 39.6</b>

Three months ended March 31, 2019	Drilling Services	Production Services	Ancillary Services	Inter- Segment Elimination	Total
Canada	\$ -	\$ 19.8	\$ 0.8	\$ -	\$ 20.6
US	-	1.4	-	-	1.4
PNG	14.2	-	-	-	14.2
Revenue from contracts with customers	14.2	21.2	0.8	-	36.2
Operating lease revenue	4.6	1.6	4.9	(0.8)	10.3
<b>Total revenue</b>	<b>\$ 18.8</b>	<b>\$ 22.8</b>	<b>\$ 5.7</b>	<b>\$ (0.8)</b>	<b>\$ 46.5</b>

# HIGH ARCTIC ENERGY SERVICES INC.

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(Tabular amounts are stated in millions of Canadian Dollars, except per share amounts and/or unless otherwise stated)

For the three-month period ended March 31, 2020, two customers each represented sales of more than 10% of total revenue. Sales to these two customers were approximately \$11.8 million and \$5.7 million for the three-month period ended March 31, 2020 (three-month period ended March 31, 2019 – two customers, with revenue of \$23.5 million and \$6.3 million).

### 10. Supplementary expense disclosure

		Three months ended March 31	
Oilfield services expenses by nature		2020	2019
Personnel costs	\$	19.4	\$ 21.7
Drilling rig rental costs		2.1	4.6
Material and supplies costs		4.2	4.8
Equipment operating and maintenance costs		4.5	4.8
Other		2.1	1.4
	\$	32.3	\$ 37.3

		Three months ended March 31	
General and administrative expenses by nature		2020	2019
Personnel costs	\$	3.3	\$ 2.8
Professional, legal and consulting		0.5	0.2
Facility costs		0.1	0.2
Leases		0.1	0.2
Other		0.6	0.3
	\$	4.6	\$ 3.7

Included in Personnel costs is \$0.8 million of restructuring costs, with \$0.5 million recorded as part of Oilfield services and \$0.3 million recorded as part of General and administrative expenses for the three months ended March 31, 2020 (2019 - \$nil).

### 11. Supplementary cash flow information

Changes in non-cash working capital:

		Three months ended March 31	
		2020	2019
Source (use) of cash:			
Accounts receivable	\$	6.7	\$ (7.6)
Inventory and prepaid expenses		(1.2)	0.7
Accounts payable and accrued liabilities		(1.6)	1.6
Dividend payable		(0.8)	-
Income taxes payable		(0.1)	(0.1)
Income taxes receivable		(0.1)	-
Deferred revenue		0.1	0.3
Impact of foreign exchange on working capital		1.7	-
	\$	4.7	\$ (5.1)

# HIGH ARCTIC ENERGY SERVICES INC.

## Notes to the Consolidated Financial Statements

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Attributable to:		
Operating activities	\$ 6.6	\$ (4.8)
Investing activities	(1.1)	(0.3)
Financing activities	(0.8)	
	\$ 4.7	\$ (5.1)

Interest amounting to \$0.3 million was paid during the three months ended March 31, 2020 (2019 - \$0.2 million).

Taxes paid during the three months ended March 31, 2020 amounted to \$0.4 million (2019 - \$0.5 million).

## 12. Financial instruments and risk management

### Financial and other risks

The Corporation is exposed to financial risks arising from its financial assets and liabilities. This includes the risk associated with the recent development relating to COVID-19, as outlined in Note 2(c), and other such pandemics in the future.

Outside of a pandemic risk, financial risks include market risk, interest rate risk, foreign currency risk, risks associated with foreign currency restrictions and operations, and credit risk including commodity price risk and liquidity risk.

### Market and other related 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.

Pandemic risk is the risk that operations and/or administration are forced to run at less than full capacity due to an absence or reduction of members of the workforce, either through forced closures by government both within countries and also across national borders, by internally imposed rotational schedules and/or quarantine or illness of the workforce. Further, cyber risks increase as employees work from home. Such restrictions could significantly impact the ability for the Corporation to operate, and therefore impact financial results.

### Interest rate risk and available swaps

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.

The Corporation has available to it an Interest rate swap, which is included within its' existing facility agreement (Note 6). The interest rate swap allows High Arctic to fix the rate of interest payable up to a maximum of \$20 million of the loaned amount. No swaps have been undertaken by the Corporation at March 31, 2020.

### Commodity price risk

Commodity price risk is the risk that the Corporation's future cash flows will fluctuate due to changes in demand for High Arctic's services, where many of the Corporation's customers are oil and gas producers. High Arctic's customer's activity and strategic decisions are impacted by the fluctuations of oil and gas pricing.

These prices are sensitive to not only the relationship between the Canadian and US dollar, but also local, regional and world economic events, such as implications from declining oil demand and over supply as well as the current COVID-19 pandemic which creates a scenario of both downward and fluctuating price pressure.

### 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.

# HIGH ARCTIC ENERGY SERVICES INC.

## Notes to the Consolidated Financial Statements

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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 three-month period ended March 31, 2020, a 0.10 basis point change in the value of the Canadian dollar relative to the USD would have resulted in change in net earnings (loss) amounting to \$0.1 million 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 or "PGK"). 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 (2019 – two) which individually accounted for greater than 10% of its consolidated revenues during the three-month period ended March 31, 2020. Sales to these two customers were approximately \$11.8 million and \$5.7 million for the three-month period ended March 31, 2020 (three-month period ended March 31, 2019 - \$23.5 million and \$6.3 million).

As at March 31, 2020, these two customers represented 42%, of outstanding accounts receivable (December 31, 2019 – two customers represented a total of 41% of accounts receivable). 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, together with the implications of the COVID-19 pandemic, a more thorough assessment of accounts receivable continues to be 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.

Liquidity risk is currently being impacted by uncertainty within capital markets given the COVID-19 pandemic on global economies, economic recession possibilities, contraction of available capital and reliance on continued fiscal stimulus by governments around the world.

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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.

Further, the Corporation currently has \$35 million in remaining availability under its' credit facility to enable execution of strategic direction.

### 13. 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 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 services.

#### Corporate

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

Details associated with each geographic and operating segment are provided for the three months ended March 31, 2020 and 2019 in the tables which follow.

Three months ended March 31, 2020	PNG	Canada	US	Total
Revenue	\$ 16.1	\$ 21.9	\$ 1.6	\$ 39.6
Total assets excluding deferred tax assets	\$ 129.6	\$ 122.9	\$ 4.5	\$ 257.0

  

Three months ended March 31, 2019	PNG	Canada	US	Total
Revenue	\$ 18.8	\$ 26.3	\$ 1.4	\$ 46.5
Total assets excluding deferred tax assets	\$ 145.7	\$ 116.2	\$ 1.8	\$ 263.7

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Three months ended/As at March 31, 2020	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	\$ 13.9	\$ 21.8	\$ 4.5	\$ -	\$ (0.6)	\$ 39.6
Expenses						
Oilfield Services	10.7	20.3	1.9	-	(0.6)	32.3
General and administrative	0.8	1.9	0.2	1.7	-	4.6
Depreciation	2.6	3.3	1.4	-	-	7.3
Gain on sale of property and equipment	-	-	(2.8)	-	-	(2.8)
	14.1	25.5	0.7	1.7	(0.6)	41.4
	(0.2)	(3.7)	3.8	(1.7)	-	(1.8)
Share-based compensation	-	-	-	0.1	-	0.1
Foreign exchange gain	-	-	-	(0.1)	-	(0.1)
Interest and finance expense	-	-	-	0.3	-	0.3
Earnings (Loss) before income tax	(0.2)	(3.7)	3.8	(2.0)	-	(2.1)
Property and equipment	54.1	87.4	31.8	0.2	-	173.5
Right-of-use assets	-	-	-	7.2	-	7.2
Total assets less deferred tax assets	\$ 84.4	\$ 121.6	\$ 50.1	\$ 0.9	\$ -	\$ 257.0

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Three months ended/As at March 31, 2019	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	\$ 18.8	\$ 22.8	\$ 5.7	\$ -	\$ (0.8)	\$ 46.5
Expenses						
Oilfield Services	14.6	20.7	2.8	-	(0.8)	37.3
General and administrative	1.2	1.5	0.1	0.9	-	3.7
Depreciation	2.5	3.3	1.2	-	-	7.0
Gain on sale of property and equipment	-	-	(0.8)	-	-	(0.8)
	<u>18.3</u>	<u>25.5</u>	<u>3.3</u>	<u>0.9</u>	<u>(0.8)</u>	<u>47.2</u>
	0.5	(2.7)	2.4	(0.9)	-	(0.7)
Share-based compensation	-	-	-	0.3	-	0.3
Foreign exchange gain	-	-	-	(0.2)	-	(0.2)
Interest and finance expense	-	-	-	0.2	-	0.2
Earnings (loss) before income tax	0.5	(2.7)	2.4	(1.2)	-	(1.0)
Property and equipment	60.0	86.4	30.8	0.2	-	177.4
Right-of-use assets	-	-	-	7.6	-	7.6
Total assets less deferred tax assets	\$ 97.6	\$ 111.4	\$ 52.7	\$ 2.0	\$ -	\$ 263.7

## 14. Commitments and contingencies

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 \$8.1 million (December 31, 2019 - \$7.4 million) by a customer for the Corporation's operations in PNG. The inventory is owned by this party and has not been recorded on the books of High Arctic. At the end of the contract, the Corporation must return an equivalent amount of inventory to the customer.