



HIGH ARCTIC ENERGY SERVICES INC.

**CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED
September 30, 2020 and 2019**

(Unaudited)

HIGH ARCTIC ENERGY SERVICES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited)

(Millions of Canadian Dollars)

	Note	As at September 30 2020	As at December 31 2019
Assets			
Current assets			
Cash		\$ 33.2	\$ 9.3
Accounts receivable	3	14.7	39.8
Inventory		10.5	9.3
Income taxes receivable		3.4	3.3
Prepaid expenses		1.0	1.0
		62.8	62.7
Non-current assets			
Property and equipment	4	156.0	174.1
Right-of-use assets	5	6.4	7.4
Deferred tax asset		7.6	7.6
Total Assets		\$ 232.8	\$ 251.8
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 10.4	\$ 23.2
Income taxes payable		0.5	0.6
Dividend payable		-	0.8
Current portion of lease liabilities	5	1.3	1.6
Current portion of long-term debt	6	10.0	-
Deferred revenue		-	0.7
		22.2	26.9
Non-current liabilities			
Lease liabilities	5	8.3	9.1
Deferred tax liability		9.4	10.2
Total Liabilities		39.9	46.2
Shareholders' Equity			
Share capital	7(a)	172.7	173.1
Contributed surplus		10.7	9.9
Accumulated other comprehensive income		27.7	24.8
Retained earnings (deficit)		(18.2)	(2.2)
		192.9	205.6
Total Liabilities and Shareholders' Equity		\$ 232.8	\$ 251.8

Commitments and contingencies (Note 14)

Subsequent events (Notes 6 and 7(a))

Approved on behalf of the Corporation by:

(signed) "Doug Strong" Director

(signed) "Michael Binnion" Director

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

HIGH ARCTIC ENERGY SERVICES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET LOSS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(Millions of Canadian Dollars, except per share amounts)

	Note	Three months ended September 30		Nine months ended September 30	
		2020	2019	2020	2019
Revenue	9	\$ 18.5	\$ 49.6	\$ 74.2	\$ 142.7
Expenses					
Oilfield services	10	12.7	39.0	56.8	114.8
General and administrative	10	2.4	4.3	10.1	12.1
Depreciation	4, 5	8.2	7.2	23.0	21.0
Share-based compensation	8	0.2	(0.1)	0.2	0.3
		23.5	50.4	90.1	148.2
Operating loss		(5.0)	(0.8)	(15.9)	(5.5)
Foreign exchange loss (gain)		0.2	(0.1)	-	(0.3)
Loss (gain) on sale of property and equipment	4	0.2	-	(2.6)	(0.8)
Other income		-	(0.4)	-	(1.1)
Interest and finance expense		0.2	0.3	0.8	0.7
Net loss before income taxes		(5.6)	(0.6)	(14.1)	(4.0)
Current income tax expense		1.0	0.7	1.4	2.9
Deferred income tax recovery		(0.4)	(0.2)	(1.1)	(0.8)
		0.6	0.5	0.3	2.1
Net loss		\$ (6.2)	\$ (1.1)	\$ (14.4)	\$ (6.1)
Net loss per share – basic and diluted	7(b)	\$ (0.12)	\$ (0.02)	\$ (0.29)	\$ (0.12)

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Net loss	\$ (6.2)	\$ (1.1)	\$ (14.4)	\$ (6.1)
Other comprehensive income (loss):				
<i>Items that may be reclassified subsequently to net income:</i>				
Foreign currency translation gain (loss) for foreign operations	(1.7)	1.5	2.9	(3.5)
Comprehensive income (loss) for the period	\$ (7.9)	\$ 0.4	\$ (11.5)	\$ (9.6)

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

HIGH ARCTIC ENERGY SERVICES INC.

CONDENSED CONSOLIDATED INTERIM 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
Balance at January 1, 2020		\$ 173.1	\$ 9.9	\$ 24.8	\$ (2.2)	\$ 205.6
Net loss		-	-	-	(14.4)	(14.4)
Dividends		-	-	-	(1.6)	(1.6)
Other comprehensive income – foreign currency translation gain		-	-	2.9	-	2.9
Purchase of common shares for cancellation	7(a)	(0.5)	0.4	-	-	(0.1)
Share-based compensation		0.1	0.4	-	-	0.5
Balance at September 30, 2020		\$ 172.7	\$ 10.7	\$ 27.7	\$ (18.2)	\$ 192.9
Balance at January 1, 2019		\$ 177.9	\$ 9.6	\$ 28.8	\$ 17.9	\$ 234.2
Net loss		-	-	-	(6.1)	(6.1)
Dividends		-	-	-	(7.4)	(7.4)
Other comprehensive income – foreign currency translation loss		-	-	(3.5)	-	(3.5)
Purchase of common shares for cancellation	7(a)	(4.8)	(0.3)	-	-	(5.1)
Share-based compensation		-	0.4	-	-	0.4
Balance at September 30, 2019		\$ 173.1	\$ 9.7	\$ 25.3	\$ 4.4	\$ 212.5

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

HIGH ARCTIC ENERGY SERVICES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited)

(Millions of Canadian Dollars)

	Note	Three months ended September 30		Nine months ended September 30	
		2020	2019	2020	2019
Net loss		\$ (6.2)	\$ (1.1)	\$ (14.4)	\$ (6.1)
Adjustments for:					
Depreciation	4, 5	8.2	7.2	23.0	21.0
Share-based compensation expense (recovery)	8	0.2	(0.1)	0.2	0.3
Foreign exchange loss (gain)		0.2	(0.1)	-	(0.3)
Loss (gain) on sale of property and equipment	4	0.2	-	(2.6)	(0.8)
Other income		-	(0.4)	-	(1.1)
Deferred income tax recovery		(0.4)	(0.2)	(1.1)	(0.8)
		2.2	5.3	5.1	12.2
Changes in non-cash working capital	11	(1.0)	(2.7)	12.5	(0.7)
Cash flows from operating activities		1.2	2.6	17.6	11.5
Investing activities					
Additions of property and equipment	4	(0.6)	(3.0)	(3.8)	(9.9)
Business acquisition		-	-	-	(8.3)
Property and equipment proceeds	4	0.1	0.2	5.0	1.6
Short-term investment proceeds		-	-	-	1.0
Changes in non-cash working capital	11	(0.1)	0.1	(1.4)	(0.8)
Cash flows from (used in) investing activities		(0.6)	(2.7)	(0.2)	(16.4)
Financing activities					
Dividend payments		-	(2.4)	(1.6)	(7.4)
Long-term debt proceeds	6	-	-	10.0	5.0
Long-term debt repayments	6	-	-	-	(5.0)
Purchase of common shares for cancellation	7(a)	(0.1)	(0.4)	(0.1)	(5.1)
Lease liability payments	5	(0.6)	(0.5)	(1.5)	(1.4)
Changes in non-cash working capital	11	-	-	(0.8)	-
Cash flows from (used in) financing activities		(0.7)	(3.3)	6.0	(13.9)
Effect of foreign exchange rate changes		(0.2)	0.8	0.5	(0.6)
Change in cash		(0.3)	(2.6)	23.9	(19.4)
Cash, beginning of period		33.5	14.7	9.3	31.5
Cash, end of period		\$ 33.2	\$ 12.1	\$ 33.2	\$ 12.1

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

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

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 – 2nd Street SW, Calgary, Alberta, Canada T2P 2W1.

As of September 30, 2020, 21,916,314 common shares of the Corporation were owned by FBC Holdings S.A.R.L., representing 44.0% of the outstanding common shares.

2. Basis of Presentation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements (“Condensed 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 Condensed Consolidated Financial Statements were authorized for issue by the Board of Directors on November 12, 2020.

(b) Basis of preparation

Unless otherwise noted under (d), below, the Condensed 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 Condensed Consolidated Financial Statements should be read in conjunction with the annual financial statements for the year ended December 31, 2019.

(c) Continued pandemic 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 economic declines and volatility in financial markets. The pandemic continued to adversely impact global commercial activity, including significantly reducing worldwide demand for energy, impacting High Arctic’s customers and High Arctic’s business. At and about the same time, crude oil prices were also 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.

While recent measures to reduce oil supply by OPEC and non-OPEC exporting countries have been constructive to reduce inventories, the accord continued to carry a high degree of compliance and duration uncertainty.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

The full extent of the impact of COVID-19 on the Corporation's operations and future financial performance will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, the restrictions imposed by governments in attempts to control its spread, the 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.

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 Condensed 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 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.
 - iv) Classification of long-term debt as a current liability based upon compliance with debt financing agreements including provisions such as material adverse change events, which at the reasonable discretion of the lender, may result in immediate repayment of amounts owed.
- (d) New Accounting Standards and accounting response to COVID-19

The following outlines recent standard elections and/or policy implementations which were adopted by the Corporation, as a result of qualifying for The Canada Emergency Wage Subsidy ("CEWS") program, which was enacted on April 11, 2020 by the federal Government of Canada.

In accordance with IAS 20, Government Grants, the Corporation will recognize government subsidies when there is reasonable assurance that the subsidy will be received and that the Corporation will comply with all relevant conditions. Government subsidies related to current expenses are recorded as a reduction of the related expenses.

The resulting reduction of wages amounted to \$2.8 million and \$4.9 million in the three and nine-month period ending September 30, 2020, with \$2.4 million and \$4.2 million allocated to Oilfield service expenses, for the three and nine-months ended September 30, 2020, respectively, and \$0.4 million and \$0.7 million allocated to General and administrative expenses. Amounts owing of \$1.7 million at September 30, 2020 have been recorded as part of accounts receivable.

The Corporation applied for and is eligible for similar subsidy programs in foreign jurisdictions where it maintains permanent employees. Such subsidies have amounted to approximately \$0.1 million to September 30, 2020, with the majority offset against wages in general and administrative expenses.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

3. Accounts receivable

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

	As at September 30, 2020		As at December 31, 2019
Less than 31 days	10.8	\$	14.6
31 to 60 days	2.7		16.0
61 to 90 days	0.9		3.8
Greater than 90 days	1.1		5.6
Allowance for doubtful accounts	(0.8)		(0.2)
Total	14.7	\$	39.8

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

	As at September 30, 2020		As at December 31, 2019
Canadian dollars	10.3	\$	22.0
US dollars ("USD") (2020 – USD \$3.3; 2019 - \$13.8)	4.4		17.8
Total	14.7	\$	39.8

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.

The details of this approach as at September 30, 2020 was as follows:

(\$ millions, unless otherwise noted)	Less than 31 days	31-60 days	61-90 days	Over 90 days	Total
Investment grade receivables	\$ 6.8	\$ 1.9	\$ 0.4	\$ 0.4	\$ 9.5
Non-investment grade receivables	4.0	0.8	0.5	0.7	6.0
Total receivables	\$ 10.8	\$ 2.7	\$ 0.9	\$ 1.1	\$ 15.5
<i>Expected credit loss for investment grade (%)</i>	<i>0.04</i>	<i>0.06</i>	<i>0.10</i>	<i>0.30</i>	-
<i>Expected credit loss for non-investment grade (%)</i>	<i>0.75</i>	<i>5.00</i>	<i>10.00</i>	<i>10.00</i>	-
Investment grade expected credit loss provision	\$ -	\$ -	\$ -	\$ -	\$ -
Non-investment grade expected credit loss provision	(0.03)	(0.04)	(0.05)	(0.07)	(0.19)
Specifically provided for amounts	-	-	-	(0.65)	(0.65)
Total allowance for doubtful accounts	\$ (0.03)	\$ (0.04)	\$ (0.05)	\$ (0.72)	\$ (0.84)

Although gross receivables have decreased by \$24.5 million since December 31, 2019 due to collections, the allowance for doubtful accounts has increased by \$0.6 million since that time, mainly due to identification of specific receivables that in managements' judgement may be at higher risk of collection. Expected credit loss estimates were also revised upwards, however, with a lower gross accounts receivable balance, this did not significantly impact the general provision.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 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

Cost	Vehicles	Oilfield equipment	Computer hardware and office equipment	Land and building	Work-in-progress	Total
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	-	-	-	-	3.8	3.8
Dispositions	(0.3)	(8.7)	-	-	-	(9.0)
Transfers	0.3	4.9	0.3	-	(5.2)	0.3
Effect of foreign exchange	-	4.7	-	-	0.1	4.8
At September 30, 2020	\$ 8.9	\$ 356.0	\$ 4.1	\$ 10.8	\$ 3.6	\$ 383.4
Accumulated depreciation	Vehicles	Oilfield equipment	Computer hardware and office equipment	Land and building	Work-in-progress	Total
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	0.3	21.1	0.3	0.2	-	21.9
Dispositions	(0.2)	(6.4)	-	-	-	(6.6)
Transfers	0.3	-	-	-	-	0.3
Effect of foreign exchange	-	2.4	-	-	-	2.4
At September 30, 2020	\$ 8.0	\$ 214.3	\$ 3.6	\$ 1.5	\$ -	\$ 227.4
Net book value						
At December 31, 2019	1.3	157.9	0.5	9.5	4.9	174.1
At September 30, 2020	\$ 0.9	\$ 141.7	\$ 0.5	\$ 9.3	\$ 3.6	\$ 156.0

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

For the three-month and nine-month period ended September 30, 2020, High Arctic disposed of property and equipment and received proceeds of \$0.1 million and \$5.0 million, respectively (2019 – \$0.2 million and \$1.6 million), resulting in a loss on disposal of \$0.2 million for the three months ended September 30, 2020 and a gain of \$2.6 million for the nine months ended September 30, 2020 (2019 – \$nil and \$0.8 million, respectively).

No new impairment triggers were identified relating to property and equipment as at September 30, 2020. For the prior year, as at September 30, 2019, impairment triggers had been identified as a result of the decline in the Corporation's publicly traded market value at that time. Upon performing impairment calculations on each of the Corporation's five CGUs, no impairment loss resulted as the recoverable amount of each CGU, using the value-in-use model, exceeded their respective carrying values.

5. Right-of-use assets and lease liabilities

a) Right-of-use assets

Cost		Total
Balance as at December 31, 2019	\$	9.0
Additions		0.1
Transfers		(0.3)
At September 30, 2020	\$	8.8
Accumulated depreciation		Total
Balance as at December 31, 2019	\$	1.6
Depreciation		1.1
Transfers		(0.3)
At September 30, 2020	\$	2.4
Net book value		
At December 31, 2019	\$	7.4
At September 30, 2020	\$	6.4

The right-of-use assets relate to various types of real estate assets and vehicles. Transfers include amounts that were acquired at bargain purchase values. Gross cost and accumulated depreciation of \$0.3 million each, were recorded as part of property, plant and equipment during the three-month period ending September 30, 2020.

b) Lease liabilities

		Total
Balance as at December 31, 2019	\$	10.7
Additions		0.1
Finance expense		0.3
Lease payments		(1.5)
At September 30, 2020	\$	9.6
		Total
Current	\$	1.3
Non-current		8.3
At September 30, 2020	\$	9.6

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

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

The undiscounted cash flows relating to the lease liabilities at September 30, 2020 are as follows:

		Total
Less than one year	\$	1.6
One to five years		3.7
More than five years		6.4
Total undiscounted liabilities	\$	11.7

6. Long-term debt

	As at September 30, 2020	As at December 31, 2019
Revolving loan	\$ 10.0	\$ -
Less:		
Deferred financing costs	-	-
Current portion	(10.0)	-
Total	\$ -	\$ -

Subsequent to September 30, 2020, the \$45.0 million facility ("Original facility") was renewed with the lender's consent, and the maturity date extended to August 31, 2023, as a three-year committed revolving facility ("Renewed facility"). The Renewed facility, like the Original facility, is renewable with the lender's consent, and is secured by a general security agreement over the Corporation's assets. The Renewed facility additionally provides for a \$5.0 million overdraft for the duration of the term, and is inclusive of the \$45.0 million available to the Corporation. This overdraft is not subject to covenant restrictions, however is dependent upon North American asset net book values remaining above \$50.0 million.

The Renewed facility is limited to 60% of the net book value of the Canadian fixed assets plus 75% of acceptable accounts receivable (85% for bank facility defined investment grade receivables), plus 90% of insured receivables, less priority payables, less receivables that have been sold or factored, whether to the lender or another third party as defined in the loan agreement ("Margin Requirement").

Interest on the Renewed facility, 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 0.75% – 1.75% of the outstanding balance. Standby fees also fluctuate based on the Funded Debt to Covenant EBITDA ratio and range between 0.40% and 0.60% of the undrawn balance.

The Original and Renewed facility are subject to two financial covenants which are reported to the lender on a quarterly basis. As at September 30, 2020, the Corporation was 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.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

The covenant calculations at September 30, 2020 are:

Covenants	Required	As at September 30, 2020
Funded Debt to Covenant EBITDA ⁽¹⁾⁽²⁾	3.0 : 1 Maximum	0.94 : 1
Covenant EBITDA to Interest expense ⁽²⁾	3.0 : 1 Minimum	18.03 : 1

⁽¹⁾ Funded Debt to EBITDA is defined as the ratio of consolidated Funded Debt to the aggregate Covenant EBITDA for the trailing four quarters. 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. Interest expense excludes any impact from IFRS 16.

The Original and Renewed facility contain additional covenants and conditions impacting availability and repayment of borrowings under the facility. Events of default, which include material adverse change conditions, at the reasonable discretion of the lender, may result in facility indebtedness being immediately due and payable.

For the three and nine-month period ended September 30, 2019, nil and \$5.0 million of facility proceeds were both received and repaid.

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.

	Nine months ended September 30, 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)	273,328	0.1	11,668	-
Normal course issuer bid	(145,500)	(0.5)	(1,397,247)	(4.8)
Balance, end of period	49,751,260	\$ 172.7	49,623,432	\$ 173.1

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. During the three and nine-month period ended September 30, 2020, 145,500 common shares have been purchased and cancelled under this NCIB.

Consideration paid for the three and nine month period ended September 30, 2020 amounted to \$0.1 million, where \$0.5 million was charged against common shares and contributed surplus was increased by \$0.4 million as a result of this activity. Subsequent to September 30, 2020, 943,600 common shares have been purchased at a cost of \$0.7 million and cancelled under this same NCIB up to November 12, 2020.

For the three and nine months ended September 30, 2019, 140,120 and 1,397,247 common shares were repurchased and cancelled, respectively, under the prior year's November 15, 2018 NCIB. Consideration paid amounted to \$0.4 million and \$5.1 million, for the three and nine-month periods ended September 30, 2019. Share capital was charged \$0.4 million and \$4.8 million for the three and nine months ended September 30, 2019, and \$nil and \$0.3 million was similarly charged to contributed surplus as a result of this activity.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

For the three and nine months ended September 30, 2020 and 2019, no stock options were exercised. The Corporation suspended its' monthly dividend in March 2020.

The following table summarizes the share repurchase activities:

	Nine months ended September 30, 2020	Year ended December 31, 2019
Shares repurchased	145,500	1,397,247
Amounts charged to:		
Share capital	\$ 0.5	\$ 4.8
Contributed surplus	(0.4)	0.3
Share repurchase cost	\$ 0.1	\$ 5.1

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 and Deferred Share Unit Plan are considered in this calculation.

There is no dilutive impact to the weighted number of common shares outstanding for the three and nine months ended September 30, 2020, as the effects of all options and Units are anti-dilutive.

For the three and nine months ended September 30, 2019, 428,858 and 417,085 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 tables below.

	Three months ended September 30			
	2020		2019	
	Number of Shares	Net loss per Share	Number of Shares	Net loss per
Weighted average number of common shares used in basic earnings per share	49,642,286	\$ (0.12)	49,656,358	\$ (0.02)
Dilutive impact of options	-	-	428,858	-
Weighted average number of common shares used in diluted earnings per share	49,642,286	\$ (0.12)	50,085,216	\$ (0.02)

	Nine months ended September 30			
	2020		2019	
	Number of Shares	Net loss per Share	Number of Shares	Net loss per
Weighted average number of common shares used in basic earnings per share	49,630,837	\$ (0.29)	50,104,077	\$ (0.12)
Dilutive impact of options	-	-	417,085	-
Weighted average number of common shares used in diluted earnings per share	49,630,837	\$ (0.29)	50,521,162	\$ (0.12)

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

8. Share-based compensation

The Corporation has various equity-based compensation plans under which up to 4,981,326 common shares (being 10% of all outstanding shares) may be issued as at September 30, 2020.

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

	Nine months ended September 30, 2020	Year ended December 31, 2019
Stock options	330,000	955,000
Performance share unit plan – restricted units	427,932	124,369
Performance share unit plan – performance units	432,263	251,188
Deferred share units	354,191	161,729
Balance, end of period	1,544,386	1,492,286
Common shares available for grants	4,975,126	4,962,343
Percentage used of total available	31%	30%
Remaining common shares available for grants	3,430,740	3,470,057

Share-based compensation expense (recovery) associated with each of the equity-based compensation plans amounted to:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Stock options	-	0.1	-	0.1
Performance share unit plan – restricted units	0.1	-	0.1	0.1
Performance share unit plan – performance units	(0.1)	0.1	(0.1)	0.3
Deferred share units	0.2	-	0.2	-
Cash settled restricted share units	-	(0.3)	-	(0.2)
Total expense (recovery)	\$ 0.2	\$ (0.1)	\$ 0.2	\$ 0.3

Stock Option Plan

The Corporation has a Stock Option Plan under which options to purchase common shares may be granted to directors, management and certain employees. At September 30, 2020, a total of 330,000 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, another 30% after the second anniversary date and the balance after the third anniversary date. The options have an average remaining contractual life of 1.5 years and 271,500 options are currently vested and eligible to be exercised.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

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	(575,000)	3.81
At September 30, 2020	330,000	\$ 3.73

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 - \$3.57	75,000	1.2	3.42	60,000	3.44
\$3.58 - \$3.71	35,000	0.9	3.67	35,000	3.67
\$3.72 - \$4.42	205,000	1.6	3.75	161,500	3.75
\$4.43 - \$5.07	15,000	1.5	5.07	15,000	5.07
At September 30, 2020	330,000	1.5	3.73	271,500	3.75

During the three and nine-month period ended September 30, 2020, the Corporation recorded a negligible amount of share-based compensation recovery relating to the stock option plan (2019 – three and nine months ended September 30 - \$0.1 million). For the three and nine months ended September 30, 2020, 15,000 and 575,000 unvested stock options were forfeited, which included the impact of personnel reductions through restructuring.

No stock options were granted during the three or nine-month period ended September 30, 2020 or 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.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

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
Granted	500,000	392,499	892,499
Exercised	(187,395)	(111,297)	(298,692)
Forfeited/Cancelled	(13,305)	(108,862)	(122,167)
Dividends reinvested	4,263	8,735	12,998
At September 30, 2020	427,932	432,263	860,195

During the three and nine months ended September 30, 2020, nil and 892,499 Units were granted. No Units were granted during the three and nine months ended September 30, 2019. For both the three and nine months ended September 30, 2020, share-based compensation collectively associated with these Units was a negligible amount due to the impact of forfeitures which reduced the resulting share-based compensation expense (2019 – expense of \$0.1 million and \$0.4 million, respectively).

Deferred Share Units (“DSUs”)

In 2017, the Corporation’s shareholders approved a deferred share unit plan 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.

Details regarding the DSUs and related activity is as follows:

	Nine months ended September 30, 2020	Year ended December 31, 2019
Outstanding, beginning of year	161,729	159,054
Granted	195,689	-
Exercised	(8,622)	(8,035)
Cancelled/forfeited	(148)	-
Dividends re-invested	5,543	10,710
Outstanding, end of period	354,191	161,729

For the three and nine-month period ended September 30, 2020, \$0.2 million of share-based compensation was recorded relating to the DSUs (2019 - \$nil).

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

9. Revenue

The following tables include 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 September 30, 2020	Drilling Services	Production Services	Ancillary Services	Inter-Segment Elimination	Total
Canada	\$ -	\$ 8.7	\$ 0.3	\$ -	\$ 9.0
US	-	0.7	-	-	0.7
PNG	4.6	-	-	-	4.6
Revenue from contracts with customers	4.6	9.4	0.3	-	14.3
Operating lease revenue	0.1	3.2	1.3	(0.4)	4.2
Total revenue	\$ 4.7	\$ 12.6	\$ 1.6	\$ (0.4)	\$ 18.5

Three months ended September 30, 2019	Drilling Services	Production Services	Ancillary Services	Inter-Segment Elimination	Total
Canada	\$ -	\$ 19.1	\$ 1.0	\$ -	\$ 20.1
US	-	4.0	-	-	4.0
PNG	15.2	-	-	-	15.2
Revenue from contracts with customers	15.2	23.1	1.0	-	39.3
Operating lease revenue	3.5	1.2	6.4	(0.8)	10.3
Total revenue	\$ 18.7	\$ 24.3	\$ 7.4	\$ (0.8)	\$ 49.6

Nine months ended September 30, 2020	Drilling Services	Production Services	Ancillary Services	Inter-Segment Elimination	Total
Canada	\$ -	\$ 34.6	\$ 1.2	\$ -	\$ 35.8
US	-	2.9	-	-	2.9
PNG	20.7	-	-	-	20.7
Revenue from contracts with customers	20.7	37.5	1.2	-	59.4
Operating lease revenue	3.1	6.5	6.5	(1.3)	14.8
Total revenue	\$ 23.8	\$ 44.0	\$ 7.7	\$ (1.3)	\$ 74.2

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

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

10. Supplementary expense disclosure

Oilfield services expenses by nature	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Personnel costs	\$ 8.5	\$ 21.3	\$ 35.5	\$ 64.3
Drilling rig rental costs	0.1	4.7	2.4	14.2
Material and supplies costs	1.2	6.8	6.7	17.4
Equipment operating and maintenance costs	1.9	5.1	8.3	15.3
Other	1.0	1.1	3.9	3.6
	\$ 12.7	\$ 39.0	\$ 56.8	\$ 114.8

General and administrative expenses by nature	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Personnel costs	\$ 1.6	\$ 3.0	\$ 6.6	\$ 8.9
Professional, legal and consulting fees	0.2	0.2	1.1	0.9
Facility costs	0.2	0.1	0.5	0.4
Bad debt provision	0.2	0.4	0.8	0.5
Information technology services	0.2	0.3	0.6	0.6
Rentals	-	0.1	0.2	0.5
Other	-	0.2	0.3	0.3
	\$ 2.4	\$ 4.3	\$ 10.1	\$ 12.1

For the three and nine-month period ended September 30, 2020 \$nil and \$0.9 million of restructuring costs are included in Personnel costs, with \$nil and \$0.4 million recorded as part of Oilfield services and \$nil and \$0.5 million recorded as part of General and administrative expenses for each of the three and nine-month periods ended September 30, 2020, respectively. No such amounts were recorded in 2019.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

11. Supplementary cash flow information

Changes in non-cash working capital:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Source (use) of cash:				
Accounts receivable	\$ 0.9	\$ (2.9)	\$ 25.1	\$ (0.3)
Inventory and prepaid expenses	0.4	0.7	(1.2)	1.0
Accounts payable and accrued liabilities	(2.3)	1.8	(12.8)	0.7
Dividend payable	-	-	(0.8)	-
Income taxes payable	-	(0.1)	(0.1)	(0.3)
Income taxes receivable	0.1	(1.7)	(0.1)	(3.1)
Deferred revenue	-	(0.4)	(0.7)	(0.2)
Impact of foreign exchange on working capital	(0.2)	-	0.9	0.7
	\$ (1.1)	\$ (2.6)	\$ 10.3	\$ (1.5)
Attributable to:				
Operating activities	\$ (1.0)	\$ (2.7)	\$ 12.5	\$ (0.7)
Investing activities	(0.1)	0.1	(1.4)	(0.8)
Financing activities	-	-	(0.8)	-
	\$ (1.1)	\$ (2.6)	\$ 10.3	\$ (1.5)

For the three and nine-month period ended September 30, 2020, interest amounting to \$0.1 million and \$0.5 million was paid, respectively (2019 - \$nil and \$0.3 million).

For the three and nine-month period ended September 30, 2020, taxes paid amounted to \$1.0 million and \$1.4 million, respectively (2019 - \$0.7 and \$2.9 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, commodity prices and foreign currency exchange rates.

Pandemic and/or endemic 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.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

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.

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 more importantly local, regional and world economic events, such as implications from declining oil demand and over supply, climate change driven transitions to lower emission energy sources, 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.

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 and nine-month period ended September 30, 2020, a \$0.10 change in the exchange rate of the Canadian dollar relative to the USD would have resulted in change in net earnings (loss) amounting to \$0.2 million and \$0.3 million as a result of changes in foreign exchange (2019 - \$0.2 million and \$0.1 million, respectively).

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.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

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 net carrying amount of accounts receivable represents the estimated maximum credit exposure on the accounts receivable 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 and nine-month period ended September 30, 2020. Sales to these two customers were approximately \$4.7 million and \$1.0 million for the three-month period ended September 30, 2020 (2019 - \$22.5 million and \$5.0 million), and amounted to \$15.5 million and \$18.6 million for the nine-month period ended September 30, 2020 (2019 - \$68.6 million and \$17.7 million).

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 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.

The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, working capital management, coordinating and authorizing project expenditures, authorization of contractual agreements, managing compliance to debt finance agreements, and remaining attentive to the relationship with High Arctic's lender. The Corporation seeks to manage its financing based on the results of these processes.

Further, the Corporation currently has up to \$35.0 million in remaining availability under its' credit facility, subject to bank stipulated margin conditions, 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. Up to September 30, 2020, the Corporation operated in three geographic areas, Canada, US and PNG, where the US operations, due to poor market conditions, were idled during the three-months ended September 30, 2020.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

The Corporation has four operating segments as follows:

Drilling Services

This segment currently consists of the Corporation's drilling services provided in PNG, including the provision of drilling personnel to assist our customer's operations.

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.

Details associated with each geographic and operating segment are provided for the three and nine months ended and as at September 30, 2020 and 2019 in the tables which follow.

Three months ended September 30, 2020	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- segment eliminations	Total
Revenue	\$ 4.7	\$ 12.6	\$ 1.6	\$ -	\$ (0.4)	\$ 18.5
Expenses						
Oilfield Services	3.1	9.1	0.9	-	(0.4)	12.7
General and administrative	0.4	0.8	0.1	1.1	-	2.4
Depreciation	2.6	4.2	1.4	-	-	8.2
Share-based compensation	-	-	-	0.2	-	0.2
	6.1	14.1	2.4	1.3	(0.4)	23.5
Operating loss	(1.4)	(1.5)	(0.8)	(1.3)	-	(5.0)
Foreign exchange gain	-	-	-	0.2	-	0.2
Loss on sale of property and equipment	-	-	0.2	-	-	0.2
Interest and finance expense	-	-	-	0.2	-	0.2
Loss before income tax	\$ (1.4)	\$ (1.5)	\$ (1.0)	\$ (1.7)	\$ -	\$ (5.6)

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 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 September 30, 2019	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- segment eliminations	Total
Revenue	\$ 18.7	\$ 24.3	\$ 7.4	\$ -	\$ (0.8)	\$ 49.6
Expenses						
Oilfield Services	15.0	21.4	3.4	-	(0.8)	39.0
General and administrative	1.0	1.6	0.3	1.4	-	4.3
Depreciation	2.5	2.2	2.3	0.2	-	7.2
Share-based compensation	-	-	-	(0.1)	-	(0.1)
	18.5	25.2	6.0	1.5	(0.8)	50.4
Operating income (loss)	0.2	(0.9)	1.4	(1.5)	-	(0.8)
Foreign exchange gain	-	-	-	(0.1)	-	(0.1)
Interest and finance expense	-	-	-	0.3	-	0.3
Other income	-	-	-	(0.4)	-	(0.4)
Earnings (loss) before income tax	\$ 0.2	\$ (0.9)	\$ 1.4	\$ (1.3)	\$ -	\$ (0.6)

Nine months ended/As at September 30, 2020	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	\$ 23.8	\$ 44.0	\$ 7.7	\$ -	\$ (1.3)	\$ 74.2
Expenses						
Oilfield Services	17.6	36.6	3.9	-	(1.3)	56.8
General and administrative	1.8	3.6	0.4	4.3	-	10.1
Depreciation	7.9	10.8	4.3	-	-	23.0
Share-based compensation	-	-	-	0.2	-	0.2
	27.3	51.0	8.6	4.5	(1.3)	90.1
Operating loss	(3.5)	(7.0)	(0.9)	(4.5)	-	(15.9)
Gain on sale of property and equipment	-	-	(2.6)	-	-	(2.6)
Interest and finance expense	-	-	-	0.8	-	0.8
Earnings (Loss) before income tax	(3.5)	(7.0)	1.7	(5.3)	-	(14.1)
Property and equipment	45.3	84.5	26.1	0.1	-	156.0
Right-of-use assets	-	-	-	6.4	-	6.4
Total assets less deferred tax assets	\$ 63.1	\$ 119.8	\$ 42.2	\$ 0.1	\$ -	\$ 225.2

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and nine months ended September 30, 2020 and 2019 (Unaudited)

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

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

September 30, 2020	PNG	Canada	US	Total
Revenue – three-months ended	\$ 5.1	\$ 12.6	\$ 0.8	\$ 18.5
Revenue – nine-months ended	26.9	44.3	3.0	74.2
Total assets excluding deferred tax assets	\$ 95.2	\$ 126.5	\$ 3.5	\$ 225.2

September 30, 2019	PNG	Canada	US	Total
Revenue – three-months ended	\$ 22.4	\$ 23.2	\$ 4.0	\$ 49.6
Revenue – nine-months ended	68.6	66.7	7.4	142.7
Total assets excluding deferred tax assets	\$ 125.3	\$ 118.9	\$ 4.6	\$ 248.8

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 \$8.3 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 make a payment to the customer equivalent to any inventory shortfall, and return the balance of inventory on hand.