HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
December 31, 2020 and 2019

Independent auditor's report

To the Shareholders of High Arctic Energy Services Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of High Arctic Energy Services Inc. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of non-financial assets *Refer to note 2 – Basis of presentation, note 3 – Significant accounting policies and note 8 – Property and equipment to the consolidated financial statements.* The Company's net property and equipment balance was $141.7 million as at December 31, 2020. At each reporting date, judgement is used to determine whether property and equipment has any indications of impairment (indicators). For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. These are called cash generating units (CGUs), and judgement is required to aggregate assets into their appropriate CGU. If indicators exist, impairment is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. The recoverable amount for a CGU is determined as the higher of its fair value less costs of disposal and value in use. Recoverable amounts are typically calculated using a discounted cash flow model. During the first quarter of 2020, management determined indicators of impairment existed within three of the Company's CGUs, due to the COVID-19 impact on businesses, and the simultaneous	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the recoverable amounts of the CGUs which included the following: – Tested the appropriateness of the method used and the mathematical accuracy of the discounted cash flow models; – Tested the underlying data used in the discounted cash flow models; – Tested the reasonableness of revenue and cost escalations by (i) comparing to the Company's budget, which is approved by the Board of Directors, (ii) assessing consistency with evidence obtained in other areas of the audit, and (iii) comparing to available third party published economic data; – Professionals with specialized skill and knowledge in the field of valuation assisted in: o assessing the reasonableness of the methodology for the determination of the recoverable amounts; o testing the reasonableness of the weighted average pre-tax discount rate and terminal value multiple applied by management, and o evaluating the reasonableness of the

Key audit matter	How our audit addressed the key audit matter
downward pressure on oil and natural gas commodity prices. Management used value-in-use (the method) to estimate the recoverable amount of the CGUs, which is based on the discounted net cash flows expected to be derived from the CGU's business. Cash flows beyond the five-year forecast were extrapolated using a terminal value multiple. Management concluded that no impairment losses were required for the Well Servicing & Snubbing Operations, Nitrogen Operations and Canadian Rental Operations. As at December 31, 2020, management determined that impairment indicators existed within the Well Servicing and Snubbing Operations and PNG (Papua New Guinea) Drilling CGUs due to the decision to re-evaluate the US operation strategy due to the continued and unprecedented worldwide effect of the COVID-19 pandemic and significant and continued uncertainty regarding utilization of equipment in PNG. Management used value-in-use (the method) to estimate the recoverable amounts of the CGUs, which is based on the discounted net cash flows expected to be derived from the CGUs business. Cash flows beyond the five-year forecast were extrapolated using a terminal value multiple. Management concluded that no impairment losses were required for these CGUs. External appraisals of the Company's rigs in PNG were completed and also relied upon for testing as at December 31, 2020. Estimates of future cash flows used in the determination of the recoverable amounts for both the March 31, 2020 and December 31, 2020 impairment tests required a number of key assumptions including: a weighted average pre-tax discount rate, revenue and cost escalations as well as a terminal value multiple. We considered this a key audit matter due to the	appraised value of the Company's rigs. • Evaluated the related disclosures in the notes to the consolidated financial statements, including the sensitivity analysis of the key assumptions used by management.

Key audit matter	How our audit addressed the key audit matter
significant judgement made by management in developing key assumptions to determine the recoverable amounts of the CGUs. This resulted in a high degree of subjectivity and audit effort in performing our audit procedures to test the recoverable amounts determined by management. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.	

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 11, 2021

HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in Millions of Canadian Dollars)

As at December 31	Note		2020		2019
Assets					
Current assets					
Cash		$	**32.6**	$	9.3
Accounts receivable	5		**12.9**		39.8
Inventory	7		**9.3**		9.3
Income tax receivable	16(f)		**0.3**		3.3
Prepaid expenses			**0.7**		1.0
			55.8		62.7
Non-current assets					
Property and equipment	8		**141.7**		174.1
Right-of-use assets	9		**6.1**		7.4
Income tax receivable	16(f)		**3.0**		-
Deferred tax asset	16		**7.6**		7.6
Total Assets		$	**214.2**	$	251.8
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	**9.1**	$	23.2
Income tax payable			**0.5**		0.6
Dividend payable			**-**		0.8
Current portion of lease liabilities	9		**1.4**		1.6
Deferred revenue			**-**		0.7
			11.0		26.9
Non-current liabilities					
Long-term debt	10		**10.0**		-
Lease liabilities	9		**7.8**		9.1
Deferred tax liability	16		**8.1**		10.2
Total Liabilities			**36.9**		46.2
Shareholders' equity					
Share capital	11(a)		**169.3**		173.1
Contributed surplus			**13.7**		9.9
Accumulated other comprehensive income			**24.0**		24.8
Deficit			**(29.7)**		(2.2)
			177.3		205.6
Total Liabilities and Shareholders' Equity		$	**214.2**	$	251.8

Commitments and contingencies (Note 21)

Approved on behalf of the Corporation by:

(signed) "Doug Strong"
Chairman of the Audit Committee
and Director

(signed) "Michael Binnion"
Executive Chairman of the Board
and Director

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

HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Stated in Millions of Canadian Dollars, except per share amounts)

For the years ended December 31	Note		2020		2019
Revenue	13	**$**	**90.8**	$	185.5
Expenses					
Oilfield services	15		**69.5**		150.3
General and administrative	15		**12.8**		15.8
Depreciation	8, 9		**35.5**		28.3
Share-based compensation	12		**0.5**		0.5
Total expenses			**118.3**		194.9
			(27.5)		(9.4)
Foreign exchange loss (gain)			**0.2**		(0.3)
Gain on sale of property and equipment	8		**(2.6)**		(2.8)
Other income	14		**-**		(1.1)
Interest and finance expense	15		**1.1**		1.1
Net loss before income taxes			**(26.2)**		(6.3)
Income tax expense (recovery)	16				
Current income tax expense			**1.6**		3.0
Deferred income tax recovery			**(1.9)**		(0.5)
Total income tax expense (recovery)			**(0.3)**		2.5
Net loss for the year		**$**	**(25.9)**	$	(8.8)
Net loss per common share – basic and diluted	11(b)	**$**	**(0.52)**	$	(0.18)

For the years ended December 31		2020		2019
Net loss for the year	**$**	**(25.9)**	$	(8.8)
Other comprehensive income (loss):				
Items that may be reclassified subsequently to net income:				
Foreign currency translation loss for foreign operations		**(0.8)**		(5.4)
Comprehensive loss for the year	**$**	**(26.7)**	$	(14.2)

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

HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Stated in Millions of Canadian Dollars)

	Note	Share capital	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 for the year		-	-	**-**	**(25.9)**	**(25.9)**
Dividends		-	-	**-**	**(1.6)**	**(1.6)**
Other comprehensive income:–						
Foreign currency translation loss		-	-	**(0.8)**	**-**	**(0.8)**
Purchase of common shares for cancellation	11(a)	**(3.9)**	**3.1**	**-**	**-**	**(0.8)**
Liability reduction for common share issuance	11(a)	**0.1**	**0.2**	**-**	**-**	**0.3**
Share-based compensation	12	**-**	**0.5**	**-**	**-**	**0.5**
Balance at December 31, 2020		**$ 169.3**	**$ 13.7**	**$ 24.0**	**$ (29.7)**	**$ 177.3**

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total shareholders' equity
Balance at January 1, 2019		$ 177.9	$ 9.6	$ 28.8	$ 17.9	$ 234.2
Net loss for the year		-	-	-	(8.8)	(8.8)
Dividends		-	-	-	(9.9)	(9.9)
Other comprehensive income:–						
Foreign currency translation loss		-	-	(5.4)	-	(5.4)
Purchase of common shares for cancellation	11(a)	(4.8)	(0.3)	-	-	(5.1)
Share-based compensation	12	-	0.6	-	-	0.6
Reclassification of loss on short-term investments		-	-	1.4	(1.4)	-
Balance at December 31, 2019		$ 173.1	$ 9.9	$ 24.8	$ (2.2)	$ 205.6

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

HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in Millions of Canadian Dollars)

For the years ended December 31	Note	2020	2019
Operating activities			
Net loss		**$ (25.9)**	$ (8.8)
Adjustments for:			
Depreciation	8, 9	**35.5**	28.3
Share-based compensation expense	12	**0.5**	0.5
Foreign exchange loss (gain)		**0.2**	(0.3)
Gain on sale of property and equipment	8	**(2.6)**	(2.8)
Other income	14	**-**	(1.1)
Deferred income tax recovery	16	**(1.9)**	(0.5)
Funds flow from operations		**5.8**	15.3
Change in non-cash income tax receivable	16(f)	**(3.0)**	-
Changes in non-cash working capital balances	18	**16.9**	(2.6)
Cash provided by operating activities		**19.7**	12.7
Investing activities			
Purchase of property and equipment	8	**(4.9)**	(14.8)
Acquisition of snubbing business	4	**-**	(8.3)
Proceeds from disposal of property and equipment	8	**5.1**	4.9
Proceeds from sale of short-term investments	6	**-**	1.0
Changes in non-cash working capital balances	18	**(1.4)**	(0.2)
Cash used in investing activities		**(1.2)**	(17.4)
Financing activities			
Cash dividends		**(1.6)**	(9.9)
Proceeds from long-term debt	10	**10.0**	8.0
Repayment of long-term debt	10	**-**	(8.0)
Purchase of common shares for cancellation	11(a)	**(0.8)**	(5.1)
Lease obligation principal repayments	9	**(1.7)**	(1.3)
Changes in non-cash working capital balances	18	**(0.8)**	-
Cash provided by (used in) financing activities		**5.1**	(16.3)
Effect of foreign exchange rate changes on cash		**(0.3)**	(1.2)
Increase (decrease) in cash		**23.3**	(22.2)
Cash, beginning of year		**9.3**	31.5
Cash, end of year		**$ 32.6**	**$** 9.3

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

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

1. Reporting Entity

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 following table lists the Corporation's principal subsidiaries, the jurisdiction of formation or incorporation of such subsidiaries and the percentage of share owned, directly or indirectly, by the Corporation as at December 31, 2020:

Name of Subsidiary	Jurisdiction of formation or incorporation	Percentage ownership of shares beneficially owned or controlled (in)directly by the Corporation
High Arctic Energy Services Cyprus Limited	Cyprus	100%
High Arctic Energy Services PNG Limited	PNG	100%
High Arctic Energy Services (Singapore) PTE Ltd.	Singapore	100%
High Arctic Energy Services Australia PTY Ltd.	Australia	100%
HAES SD Holding Corp.	Alberta	100%
Powerstroke Well Control Inc.	United States	100%

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

As of December 31, 2020, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L., representing 44.9% of the outstanding common shares.

2. Basis of Presentation

(a) Statement of compliance

These consolidated financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Financial Statements were authorized for issuance by the Board of Directors on March 11, 2021.

(b) Basis of Measurement

These Financial Statements have been prepared on the historical cost basis, except for investments (excluding investments accounted for using the equity method), and derivative financial instruments, which are measured at fair value through profit or loss.

(c) Functional and presentation currency

The Financial Statements are presented in Canadian dollars, which is also the currency of the primary economic operating environment ("functional currency") of the parent company.

The US dollar is the functional currency of a number of the Corporation's subsidiaries, with one subsidiary utilizing the Australian dollar as its' functional currency.

(d) Use of Judgements and estimates

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

Critical accounting judgements:

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

i) Allowance for doubtful accounts

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

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

ii) Deferred Income taxes

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

The Corporation's calculation of income taxes involves many complex factors as well as the Corporation's interpretation of relevant tax legislation and regulations and estimations of future taxable profits. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are increased or reduced depending on the probability that the related tax benefit will be realized.

iii) Functional currency

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

Factors that the Corporation considers when determining the functional currency of its subsidiaries include:

(a) the currency that the delivery of goods and services are contracted in,
(b) the currency used to conduct business in the region,
(c) the currency that mainly influences labour, material and other costs of providing goods or services, and;
(d) the currency in which receipts from operating activities are usually retained in.

When the indicators are mixed and the functional currency of an entity is not obvious, management uses its judgement to determine the functional currency that most appropriately represents the economic effects of the underlying transactions, events and conditions. Judgement was applied in determining the functional currency of the operations in PNG to be United States dollars ("USD") due to a history of all existing drilling services contracts negotiated and settled in USD, as well as the majority of the expenses quoted and paid in USD, including lease expenses.

iv) Identification of CGUs & Impairment of property and equipment

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

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

v) Business acquisitions

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

vi) Joint arrangements

Judgement is required to assess whether joint arrangements incorporate joint rights to the assets and obligations of the arrangement and/or how the details of the arrangement suggest that a joint venture or joint operation results.

Critical accounting estimates

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

i) Depreciation

Depreciation of the Corporation's property and equipment incorporates estimates of useful lives, salvage values and depreciation methodology that is estimated to best reflect usage. Equipment under construction is not depreciated until it is available for use. All equipment is depreciated based on the straight-line method over the asset's useful life in years. Estimate details are presented in Note 3.

ii) Share-based compensation

The fair value of stock options, performance and deferred share units are estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, dividend yield, estimated forfeitures and estimated volatility of the Corporation's shares.

Political and 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 activity declines and volatility in commodity and 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 these first quarter 2020 developments significantly restricted global commerce and created an oil commodity price crisis, subsequent developments to close out a tumultuous COVID-19 year have set the basis for recovery. The supply impasse between Russia and Saudi Arabia quickly shifted to a significant supply reduction arrangement within OPEC Plus (OPEC and ten of the world's major non-OPEC oil-exporting nations) and Russia that has played an important role in an oil price recovery to near pre-pandemic levels almost a year later. This was aided by many non-OPEC oil producers in North America and elsewhere for whom the stark economic outlook rooted in record low oil prices and pandemic driven demand uncertainty, brought about fiscal measures to immediately control oil supply. The global discipline required to maintain a balanced oil and gas supply focus, rather than exploitive production growth, will be required for the commodity price recovery to sustain. This recovery has also been heavily supported by governments in many regions around the world through fiscal and monetary policy objectives to reinforce consumer confidence and broad-based financial liquidity.

While the recovery trend is encouraging and a continuing focus on supply balance for oil and gas producers is warranted, a high level of uncertainty persists. This impacts High Arctic as the company pursues its strategy and allocates resources to support its principal markets in Canada driven by customer oil and natural gas production and in PNG where its customers are weighing final investment decisions on large LNG production expansion projects. In addition to COVID-19 pandemic and endemic risks, political risk associated with High Arctic's principal markets are also being influenced by the new administration in the US, ongoing policy setting and pipeline export infrastructure within Canada, and ongoing negotiations with industry by the PNG government.

In addition, the global focus to address climate change has created a rotation of investment capital away from the oil and gas industry in certain markets with the potential to increase High Arctic's cost of capital and reduce access to growth funding.

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 speed at which successful vaccinations will inoculate large portions of the global population, the development of substantive treatment options, the continued duration and spread of COVID-19 and/or variants of the virus, 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 the primary inoculation of populations against the virus in the places where the Corporation operates.

The pandemic presents uncertainty and risk with respect to the Corporation, its performance, and estimates and assumptions used by Management in the preparation of financial results. The pandemic and current market conditions have increased the complexity of estimates and assumptions used to prepare the Financial Statements, particularly related to:

i) Recoverable amounts of CGUs as it relates to impairment testing on property and equipment;

ii) Estimated credit losses as it relates to accounts receivable, particularly from customers who operate in the energy sector and are impacted by these same COVID-19 issues;

iii) Tax provisions where estimates are made of annual taxable income and also estimates regarding recoverability of deferred tax assets; and

iv) Classification of long-term debt as non-current where judgement is made regarding compliance with material adverse change conditions as referenced in Note 10.

3. Significant Accounting Policies

(a) Basis of Consolidation

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

Subsidiaries are entities controlled by the Corporation. Control exists when High Arctic has the ability to govern the financial and operating policies of an entity to enable the receipt of the benefits from its activities. In assessing control, potential voting rights that currently are exercisable are considered.

The financial statements of subsidiaries are included in the Financial Statements from the date that control commences until the date that control ceases.

(b) Business Combinations

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

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

(c) Foreign Currency

i. Functional currency:

Items included in the financial statements of each subsidiary of the Corporation are measured using their functional currencies, as dictated by their operating environment.

ii. Foreign operations:

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

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

All changes resulting from applying the closing rate to the assets and liabilities of foreign operations are recognized as gains or losses as part of other comprehensive income.

iii. Transactions and balances:

Transactions that take place within an entity that are denominated in a different currency, are translated into that entity’s functional currency using the exchange rates prevailing at the date the transactions take place. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation’s functional currency, are recognized in the statement of net earnings (loss) as foreign exchange gains or losses.

(d) Joint Arrangements

When joint arrangements are entered into, the Corporation determines whether it constitutes a joint venture or joint operation. Joint ventures are accounted for using the equity method of accounting, with income recorded in the statement of net earnings (loss). Joint operations are recorded using proportionate consolidation.

(e) Revenue Recognition

Revenue is recognized from a variety of sources. In general, revenue is measured based on the consideration specified in a contract with a customer based upon an agreed transaction price. The Corporation’s revenue is generated from short-term or spot market contracts and long-term arrangements. As referenced in Note 19 regarding economic dependence, large customers often have contract durations greater than one year and can include customers in both Canada and PNG.

Long-term contracts are those with a term greater than one year. Revenue from the rendering of services is recognized as the Corporation satisfies its performance obligations, which is generally over time, as the Corporation provides its services on a per billable day or hourly basis.

Contract drilling services include contracts for individual drilling rig packages that include crews and contracts for specialist drilling related services.

Revenue is recognized over time from spud to rig release on a daily basis, using day rates based on contract specified amounts, and may include fixed fee or time based compensation for the initial location of the drilling rig on the well site and its' removal after release. Judgement may be required to determine when performance obligations are met.

Revenue from well completion and production services including well servicing, workover and snubbing is typically recognized based on daily or hourly rates as stipulated in the contracts with the customer.

Revenue for oilfield equipment rentals, including mats, is recognized using daily or monthly rates determined within the contracts.

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

The Corporation recognizes the incremental costs of obtaining a contract as an expense when incurred if the related contract is one year or less.

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

(f) Cash and cash equivalents

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

(g) Financial Instruments

Financial assets and liabilities are classified and measured at amortized cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit and loss ("FVTPL"), depending on the nature of the instrument. The classification is generally based on the contractual cash flow characteristics of the asset or liability. Financial assets held to collect principal and interest cash flows on specified dates are measured at amortized cost.

Investments in share equity of other third-parties are initially recognized at fair value and classified FVTPL or FVTOCI. If designated as FVTOCI, all changes in fair value are recorded in Other comprehensive income ("OCI"). Upon disposal of such investment, the cumulative OCI recorded is reclassified to retained earnings. Dividends from such investments are recognized in profit or loss as other income when the Corporation's right to receive payments is established.

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

The following table provides a summary of the classification and measurement basis applicable for the Corporation's non-derivative financial instruments.

Instrument	Initial Measurement	Subsequent Measurement
Financial Assets		
Cash (and equivalents if applicable)	Fair value	Amortized cost (1)
Accounts receivable	Fair value	Amortized cost (2)
Short-term investments (3)	Fair value	FVTOCI
Financial Liabilities (4)		
Accounts payable and accrued liabilities	Fair value	Amortized cost (1)
Dividends payable	Fair value	Amortized cost (1)
Long-term debt	Fair value	Amortized cost (1)

(1) Amortized cost using the effective interest rate

(2) Upon initial recognition of a non-derivative financial asset, a loss allowance is recorded for expected credit losses ("ECL"). Loss allowances for trade receivables are measured based on lifetime ECL that incorporates historical loss information and is adjusted for current economic and credit conditions. Losses are recorded as a charge in the Statement of net earnings (loss) as part of General and administrative expense.

(3) Fair value of short-term investments associated with publicly listed entities are based on Level I of the fair value hierarchy.

(4) All financial liabilities are recognized initially at fair value and loans and borrowings are recorded net of directly attributable transaction costs.

High Arctic currently does not have any derivative financial instruments.

(h) Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits through increased capability or performance associated with the item will flow to the Corporation, and the cost can be measured reliably. Repairs and maintenance costs are charged to the statement of net earnings (loss) during the period in which they are incurred.

Gains and losses on disposal of property and equipment are the result of the difference between proceeds obtained compared to the carrying amount of the asset disposed of, and are included as part of gains and losses on sale of property and equipment in the statement of net earnings (loss).

Depreciation is calculated on the depreciable amount which is the carrying cost of an asset less its salvage value and recognized in the statement of net earnings (loss) over the estimated useful life of the asset. The Corporation allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates separately each such component.

The calculation of depreciation includes assumptions related to useful lives and residual values and is reviewed annually and adjusted if appropriate, on a prospective basis. The assumptions are based on experience with similar assets and are subject to change as new information becomes available.

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

Property and equipment is depreciated as follows:

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

(1) UB rigs – Underbalanced rigs

(i) Inventory

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

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

(j) Impairment of assets

Impairment of financial assets

The Corporation's accounts receivable is recorded net of expected credit losses ("ECL"), using the simplified approach in estimating the lifetime ECL, taking into consideration historical industry default rates as well as credit ratings and the current financial condition of specific customers.

Impairment of non-financial assets

At each reporting date, judgement is used to determine whether property and equipment has any indications of impairment ("indicators"). For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

These are called cash generating units, and judgement is required to aggregate assets into their appropriate CGU. If indicators exist, impairment is recognized for the amount by which the cash generating unit's carrying amount exceeds its recoverable amount. The recoverable amount for a CGU is determined as the higher of its fair value less costs of disposal, and its value in use.

Recoverable amounts are typically calculated using a discounted cash flow model. Value in use calculations estimate future cash flows, discounted to their present value, using a before-tax discount rate reflecting current market conditions specific to the risk inherent in the assets in the CGU. If the carrying amount of the CGU exceeds its recoverable amount, accumulated depreciation is increased and, an impairment loss is charged to the statement of net earnings (loss) such that the recorded value of the CGU is no greater than its recoverable amount.

A previously recognized impairment loss is required to be reversed if there has been a change in circumstances and/or estimates used to determine the CGUs recoverable amount. If the recoverable amount has increased since the time that the impairment loss was recorded, the carrying amount of the CGU is increased, but only up to its recoverable amount. Further, the amount of impairment reversal cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the CGU while impaired. Such impairment reversal is recognized in the statement of net earnings (loss).

(k) Share-based and other compensation

Share-based plans:

Stock Option Plan

The Corporation has a stock option plan that provides incentive for directors, management and certain employees. Options granted are measured at the fair value of the equity instruments at the grant date.

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

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

Performance Share Unit Plan:

The Corporation has a Performance Share Unit Plan ("PSUP") under which the Corporation may grant restricted share units ("RSUs") and/or performance share units ("PSUs") to its employees. The Corporation intends to grant PSUs which have performance vesting conditions, and other units which, unless otherwise directed by the Board of Directors, vest one third on each of the first, second and third anniversaries from the date of the grant.

The fair value of the RSUs and PSUs issued is equal to the Corporation's five day weighted average share price on the grant date. The fair value is expensed over the vesting term on a graded vesting basis.

PSU and RSU holders are entitled to dividends on any date a cash dividend is paid on the Corporation's common shares.

They will be credited with a dividend equivalent in the form of a number of PSUs or RSUs calculated by multiplying the amount of the dividend per common share by the aggregate number of PSUs or RSUs that were credited to the participant’s account as of the record date for payment of the dividend, and dividing that amount by the fair market value on the date on which the dividend is paid.

The PSUs and RSUs are treated as equity-settled share-based compensation and compensation expense is recognized on issued units as vesting occurs, at fair value, with a corresponding increase in contributed surplus.

Deferred Share Units:

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

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

Cash Settled Restricted Share Units

The Corporation had awarded Cash Settled Restricted Share Units (“CSRSUs”), which constitute a phantom share plan, to certain employees of the Corporation. Each CSRSU carried the right to a cash payment based upon the trading price of the common shares when exercised.

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

Other compensation:

Bonus plans:

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

Defined contribution pension plan:

A defined contribution pension plan is a plan under which the Corporation pays fixed contributions to a third-party entity. Amounts are recognized as a liability and expense in accordance with the fixed contribution terms. The Corporation has no legal or constructive obligation relating to future payments to employees.

(l) Share capital

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

(m) Dividends

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

(n) Provisions

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

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

(o) Interest and finance expenses

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

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

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

(p) Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted at the reporting date in the jurisdictions where the Corporation operates.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(q) Earnings (loss) per share

The Corporation presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net earnings or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is determined using the treasury stock method, whereby net earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding is adjusted for the effects of all dilutive potential common shares. The treasury stock method assumes any proceeds obtained on the exercise of equity-based compensation arrangements would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the difference between the number of shares issued from the exercise of equity-based compensation arrangements and shares repurchased from the related proceeds.

(r) Segment reporting

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

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

(s) Leases

The Corporation applied IFRS 16 Leases ("IFRS 16") using the modified retrospective approach on January 1, 2019 (Note 9). On transition to IFRS 16 and at the inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation considers whether it has the right to substantially all of the economic benefits from the use of the identified asset, and the right to direct the use of the asset.

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

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

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

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

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

The Corporation recognizes the lease payments associated with short-term leases of less than a one-year duration as an expense on a straight-line basis over the lease term.

(t) Government assistance

The following outlines recent standard policy implementations which were adopted by the Corporation, as a result of qualifying for the Canada Emergency Wage Subsidy (“CEWS”) and Canada Emergency Rent Subsidy (“CERS”) programs, which were enacted on April 11, 2020 and September 27, 2020, respectively, 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, and/or in accordance with our IFRS 16 elected practical expedient, as noted above.

4. Business acquisitions and joint arrangements

July 2020 – Joint Arrangement with Saa Dene Services Ltd

On July 9, 2020, High Arctic, through its newly formed subsidiary, HAES SD Holding Corp, entered into a joint arrangement with Saa Dene Services Ltd., a member of the Saa Dene group of companies established by an individual who served as the Chief of the Fort McKay First Nation for over 30 years. The arrangement has been structured through a partnership, Seh’ Chene Well Services Limited Partnership (“Seh’ Chene”), and ultimately results in joint venture accounting for the Corporation under IFRS.

The mission of this partnership is to execute dependable high-quality energy services, focused on environmental stewardship, while creating opportunity for local Indigenous communities and individuals.

No proceeds were exchanged in this arrangement, and activity to December 31, 2020 has been minimal, as the members of the arrangement continue to develop accretive business opportunities.

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

April 2019 - Snubbing Business Acquisition

On April 15, 2019, High Arctic acquired snubbing service business assets, entirely located in Canada, providing High Arctic with additional quality snubbing equipment and access to experienced personnel and crews. The purchase price of $8.25 million was settled in cash from cash on hand and was allocated to oilfield equipment.

The acquisition was accounted for as a business combination using the acquisition method of accounting whereby the assets acquired were recorded at estimated fair values on the acquisition date. Transaction costs associated with the acquisition were expensed.

Subsequent to the acquisition date, the operating results of the acquired assets have been included in the Corporation's revenues, expenses and capital spending. From the date of acquisition on April 15, 2019, the acquired assets contributed an estimated $2.4 million of revenue and $0.6 million of net earnings before tax for the Corporation.

If the business combination had been completed on January 1, 2019, the Corporation's consolidated estimated revenue and net earnings (loss) before tax for the year ended December 31, 2019 would have increased to $189.6 million and decreased to ($7.9) million, respectively. The estimated pro forma revenue and net earnings (loss) before tax were adjusted as though the acquisition occurred on January 1, 2019, primarily reflecting the depreciation under the Corporation's accounting policies. This pro forma information is not necessarily indicative of the results that would have been achieved had the business combination been completed on January 1, 2019, or of future results.

5. Accounts receivable

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

		As at December 31, 2020		As at December 31, 2019
Less than 31 days	**$**	**8.1**	$	14.6
31 to 60 days		**3.1**		16.0
61 to 90 days		**1.2**		3.8
Greater than 90 days		**1.3**		5.6
Allowance for doubtful accounts		**(0.8)**		(0.2)
Total	**$**	**12.9**	$	39.8

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

		As at December 31, 2020		As at December 31, 2019
Canadian dollars	**$**	**11.6**	$	22.0
USD (2020 – USD $1.0; 2019 - $13.8)		**1.3**		17.8
Total	**$**	**12.9**	$	39.8

High Arctic determined 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, taking into consideration drivers for each groups' credit risk. The expected credit losses also incorporate forward looking information.

(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 December 31, 2020 were as follows:

($ millions, unless otherwise noted)	Less than 31 days	31-60 days	61-90 days	Over 90 days	Total
Investment grade receivables	$ 4.4	$ 2.2	$ 0.6	$ 0.4	**$ 7.6**
Non-investment grade receivables	3.7	0.9	0.6	0.9	**6.1**
Total receivables	$ 8.1	$ 3.1	$ 1.2	$ 1.3	**$ 13.7**
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	$ -	$ -	$ -	$ -	**$ -**
Non-investment grade expected credit loss provision	(0.03)	(0.04)	(0.06)	(0.09)	**(0.22)**
Specifically provided for amounts	-	-	-	(0.62)	**(0.62)**
Total allowance for doubtful accounts	**$ (0.03)**	**$ (0.04)**	**$ (0.06)**	**$ (0.71)**	**$ (0.84)**

The comparative details at December 31, 2019 were as follows:

($ millions, unless otherwise noted)	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)
Total allowance for doubtful accounts	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.16)	$ (0.25)

6. Short-term investments

High Arctic periodically invests in the common shares and debt instruments of certain publicly traded oil and gas service companies. During the year ended December 31, 2019, the Corporation disposed of its remaining interest in short-term investments for proceeds of $1 million, resulting in $nil gain or loss on disposal. As a result of this disposal, the previously recorded fair value losses amounting to $1.4 million, recorded as part of other comprehensive income, were reclassified to retained earnings (deficit) for the year ended December 31, 2019.

7. Inventory

As at December 31, 2020 and 2019, the Corporation had inventory of $9.3 million, which is primarily comprised of parts and materials related to maintenance, recertification and refurbishment of rigs and rig-related equipment. During the years ended December 31, 2020 and 2019, the Corporation did not recognize any incremental provision for inventory. A total of $0.6 million ($0.5 million USD) has been recorded as an inventory obsolescence provision (2019 - $0.7 million (USD - $0.5 million)).

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

8. Property and equipment

Cost	Vehicles	Oilfield equipment	Computer 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	-	-	-	-	4.9	4.9
Dispositions	(0.3)	(10.4)	-	-	-	(10.7)
Transfers	0.7	5.5	0.5	-	(6.0)	0.7
Effect of foreign exchange	0.1	(3.6)	-	-	(0.1)	(3.6)
At December 31, 2020	**$ 9.4**	**$ 346.6**	**$ 4.3**	**$ 10.8**	**$ 3.7**	**$ 374.8**

Accumulated depreciation	Vehicles	Oilfield equipment	Computer 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	0.6	33.1	0.4	0.2	-	34.3
Dispositions	(0.3)	(7.9)	-	-	-	(8.2)
Transfers	0.7	-	-	-	-	0.7
Effect of foreign exchange	-	(3.1)	-	-	-	(3.1)
At December 31, 2020	**$ 8.6**	**$ 219.3**	**$ 3.7**	**$ 1.5**	$ -	**$ 233.1**
Net book value						
At December 31, 2019	1.3	157.9	0.5	9.5	4.9	174.1
At December 31, 2020	**$ 0.8**	**$ 127.3**	**$ 0.6**	**$ 9.3**	**$ 3.7**	**$ 141.7**

For the year ended December 31, 2020, High Arctic disposed of property and equipment and received proceeds of $5.1 million (2019 – $4.9 million), resulting in a gain on disposal of $2.6 million for the year ended December 31, 2020 (2019 – gain of $2.8 million).

For the year ended December 31, 2020, the Corporation reviewed well service rig and snubbing equipment and determined certain salvage value estimates previously used did not appropriately represent ultimate residual values of this equipment. As a result, the Corporation adjusted salvage value estimates prospectively and in addition, recorded an increase in depreciation of $6.5 million for the year ended December 31, 2020.

At December 31, 2020, High Arctic determined that indicators of impairment existed within two of the Corporation's CGUs, namely Well Servicing & Snubbing Operations and PNG Drilling. These indicators arose due to:

- the decision to re-evaluate our US operation strategy due to a combination of the Corporation's market capitalization relative to our property and equipment carrying value, the continued and unprecedented worldwide impact effect on businesses as a result of the COVID-19 pandemic; and
- the significant and continued uncertainty regarding utilization of our equipment in PNG.

Testing was completed and no impairment resulted. The Corporation's CGUs recoverable values were estimated to be higher than their carrying amounts. Recoverable value is calculated as the higher of value in use and fair value less costs of disposal. At December 31, 2020, value in use, as the relevant criteria, was calculated as the future five-year discounted net cash flows expected to be derived from the CGUs business, using forecast prices and cost estimates. Cash flows beyond the five-year forecast were extrapolated using a terminal value multiple. This approach is considered a Level 3 hierarchy in determination of the recoverable value. External appraisals of the Corporation's rigs in PNG were completed and also relied upon for testing at December 31, 2020.

Management's estimates of recoverable amounts are subject to measurement uncertainty as the recoverable amounts are based upon current operating forecasts, utilization rates, equipment rates and costs, as well as estimates for salvage values and discount rates.

The key assumptions used for the impairment calculations were as follows:

- a weighted average pre-tax discount rate ranging between 12% - 16%;
- revenue and cost escalations ranging between 1-3% and with adjustments reflecting an expectation of changes in the general economy, forecasted changes in drilling activity and the CGU's respective markets, and represents management's best estimate of the set of economic conditions that are expected to exist over the forecast period; and
- a terminal value multiple (gross profit) of 7.7x

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 $2.3 million.

During the first quarter of 2020, the Corporation also determined indicators of impairment existed, but at that time within three of the Corporation's CGUs, due to the COVID-19 impact on businesses, and the simultaneous downward pressure on oil and natural gas commodity prices. Impairment testing was completed on the Well Servicing & Snubbing Operations, Nitrogen Operations and Canadian Rental Operations at that time, with no resulting impairment. 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.

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

9. Right-of-use assets and lease liabilities

a) Right-of-use assets

Cost		Total
Initial recognition, January 1, 2019	$	8.2
Additions		0.8
At December 31, 2019	$	9.0
Additions		0.2
Relinquishments/disposals		(0.3)
Transfers		(0.7)
At December 31, 2020	**$**	**8.2**
Accumulated depreciation		**Total**
Initial recognition, January 1, 2019	$	0.2
Depreciation		1.4
At December 31, 2019	$	1.6
Depreciation		1.2
Relinquishments/disposals		(0.2)
Transfers		(0.7)
Effect of foreign exchange		0.2
At December 31, 2020	**$**	**2.1**
Net book value		
December 31, 2019	$	7.4
At December 31, 2020	**$**	**6.1**

The right-of-use assets relate to various types of real estate assets and vehicles. Transfers include amounts that were ultimately acquired at bargain purchase values at the end of the rental term, and gross cost and accumulated depreciation of $0.7 million each, were transferred and recorded as part of property and equipment during the year ended December 31, 2020 (2019 – nil) as a result of this activity.

b) Lease liabilities

		Total
Initial recognition, January 1, 2019	$	11.2
Additions		0.8
Lease payments		(1.8)
Finance expense (Note 15)		0.5
At December 31, 2019	$	10.7
Additions		0.2
Lease payments		(2.1)
Finance expense (Note 15)		0.4
At December 31, 2020	**$**	**9.2**

		Total
Current	$	1.4
Non-current		7.8
At December 31, 2020	**$**	**9.2**

(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). Government of Canada rent subsidies under CERS amounting to approximately $0.1 million at December 31, 2020 (2019 – $ nil) have been recorded as a reduction to Oilfield expenses, taking into consideration both IFRS accounting for government assistance as well as the practical expedient elected by the Corporation, and $0.1 million has been recorded in Accounts receivable (2019 - $nil). There was therefore no accounting impact relating to the lease liability accounting under IFRS 16 as a result of CERS, as the impact is recorded in other parts of the Financial Statements.

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

		Total
Less than one year	$	1.4
One to five years		3.6
More than five years		6.2
Total undiscounted liabilities	**$**	**11.2**

10. Long-term debt

		As at December 31, 2020		As at December 31, 2019
Revolving loan	**$**	**10.0**	$	-
Less:				
Deferred financing costs		**-**		-
Total	**$**	**10.0**	$	-

In the fourth quarter of 2020 the $45.0 million facility was renewed with the lender's consent, resulting in a revised maturity date of August 31, 2023. The facility is renewable with the lender's consent, and is secured by a general security agreement over the Corporation's assets. The 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 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), and 90% of insured receivables, less priority payables, and 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 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 facility is subject to two financial covenants which are reported to the lender on a quarterly basis. As at December 31, 2020, the Corporation was in compliance with these two covenants. 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.

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

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. EBITDA for the purposes of calculating the covenants, "Covenant EBITDA", is defined as a trailing 12-month net income plus interest expense, current tax expense, depreciation, amortization, deferred income tax expense (recovery), share-based compensation expense, and up to $1 million of restructuring costs in a twelve month trailing period, less gains from foreign exchange and sale or purchase of assets. Interest expense excludes any impact from IFRS 16.

The facility contains 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 year ended December 31, 2019, $8.0 million of facility proceeds were both received and repaid.

11. 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.

	Year ended December 31, 2020		Year ended December 31, 2019	
Common shares issued and outstanding:	**Shares**	**Amount**	Shares	Amount
Balance, beginning of year	49,623,432	$ 173.1	51,009,011	$ 177.9
Issuance of performance share units (Note 12)	273,328	0.1	11,668	-
Normal course issuer bid	(1,137,100)	(3.9)	(1,397,247)	(4.8)
Balance, end of year	**48,759,660**	**$ 169.3**	**49,623,432**	**$ 173.1**

On December 8, 2020, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,437,983 common shares, representing approximately 10 percent of the Corporation's public float at the date of approval, under a Normal Course Issuer Bid ("NCIB"). The NCIB is valid for one year, commencing on December 11, 2020 and terminates on December 10, 2021. During the year ended December 31, 2020 and up to and including March 11, 2021, no common shares have been purchased under this NCIB.

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 at the date of approval, under a NCIB. The NCIB was valid for one year. It commenced on December 2, 2019 and terminated on December 1, 2020. During the year ended December 31, 2020, 1,137,100 common shares have been purchased and cancelled under this NCIB. Consideration paid for the year ended December 31, 2020 amounted to $0.8 million, where $3.9 million was charged against common shares and contributed surplus was increased by $3.1 million as a result of this activity. For the year ended December 31, 2019, no common shares were repurchased under this NCIB.

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

On November 15, 2018, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,700,386 common shares, representing approximately 10 percent of the Corporation's public float at that time, under a NCIB. The NCIB commenced on November 19, 2018 and was valid for one year. During the year ended December 31, 2019, the Corporation purchased and cancelled 1,397,247 common shares under this NCIB at a cost of $5.1 million. Share capital was charged $4.8 million for the year ended December 31, 2019, and contributed surplus was decreased by $0.3 million as a result of this activity. During the entire term of the NCIB from November 19, 2018 to November 18, 2019, 1,643,335 common shares were purchased and cancelled at a total cost of $6.0 million.

The following table summarizes the share repurchase activities:

	Year ended December 31, 2020	Year ended December 31, 2019
Shares repurchased	**1,137,100**	1,397,247
Amounts charged to:		
Share capital	**$ 3.9**	$ 4.8
Contributed surplus	**(3.1)**	0.3
Share repurchase cost	**$ 0.8**	$ 5.1

For the years ended December 31, 2020 and 2019, no stock options were exercised.

b) Per common 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 years ended December 31, 2020 and 2019, as the effects of all options and units are anti-dilutive.

	Year ended December 31,			
	2020		2019	
	Number of common shares	**Net loss per common share**	Number of common shares	Net loss per common share
Weighted average number of common shares used in basic and diluted earnings per common share	**49,479,022**	**$ (0.52)**	49,982,170	$ (0.18)

c) Retained earnings (deficit)

The Corporation suspended its monthly dividend in March 2020.

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

12. Share-based compensation

The Corporation has various equity-based compensation plans under which up to 4,875,966 common shares (being 10% of all outstanding shares) may be issued as at December 31, 2020.

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

	Year ended December 31, 2020	Year ended December 31, 2019
Stock options	**265,500**	955,000
Performance share unit plan – restricted units ("RSUs")	**422,181**	124,369
Performance share unit plan – performance units ("PSUs")	**376,053**	251,188
Deferred share units ("DSUs")	**523,117**	161,729
Balance, end of year	**1,586,851**	1,492,286
Common shares available for grants	**4,875,966**	4,962,343
Percentage used of total available	**33%**	30%
Remaining common shares available for grants	**3,289,115**	3,470,057

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

	Year ended December 31, 2020	Year ended December 31, 2019
Stock options	**$ -**	$ 0.1
Performance share unit plan – restricted units	**0.1**	0.2
Performance share unit plan – performance units	**-**	0.3
Deferred share units	**0.4**	-
Cash settled restricted share units	**-**	(0.1)
Total expense (recovery)	**$ 0.5**	$ 0.5

Stock Option Plan

The Corporation has a Stock Option Plan under which options to purchase common shares may be granted to directors, management and certain employees. At December 31, 2020, a total of 265,500 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 1.5 years and 258,000 options are currently vested and eligible to be exercised.

(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	(110,000)		3.81
Forfeited/Cancelled	(579,500)		3.71
At December 31, 2020	**265,500**	**$**	**3.72**

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 - $3.41	25,000	2.95	3.35	17,500	3.35
$3.42 - $3.57	50,000	0.01	3.46	50,000	3.46
$3.58 - $3.71	35,000	0.68	3.67	35,000	3.67
$3.72 - $4.41	140,500	1.99	3.75	140,500	3.75
$4.42 - $5.07	15,000	1.24	5.07	15,000	5.07
At December 31, 2020	**265,500**	**1.49**	**3.72**	**258,000**	**3.73**

During the year ended December 31, 2020, the Corporation recorded a negligible amount of share-based compensation expense relating to the stock option plan (2019 - expense of $0.1 million). For the year ended December 31, 2020, 579,500 stock options were forfeited, which included the impact of personnel reductions through restructuring.

No stock options were granted during the year ended December 31, 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.

(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	(191,229)	(115,059)	(306,288)
Forfeited/Cancelled	(15,222)	(161,362)	(176,584)
Dividends reinvested	4,263	8,787	13,050
At December 31, 2020	**422,181**	**376,053**	**798,234**

During the year ended December 31, 2020, 892,499 Units were granted. Comparatively, 40,000 Units were granted during the year ended December 31, 2019. For the year ended December 31, 2020, share-based compensation expense collectively associated with these Units was a $0.1 million (2019 – expense of $0.5 million).

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 vest immediately, however are settled upon the holder ceasing to serve as a member of the Board of Directors and is not an employee of the Corporation, through the issuance of common shares 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:

	Year ended December 31, 2020	Year ended December 31, 2019
Outstanding, beginning of year	**161,729**	159,054
Granted	**364,615**	-
Exercised	**(8,622)**	(8,035)
Dividends re-invested	**5,395**	10,710
Outstanding, end of year	**523,117**	161,729

For the year ended December 31, 2020, $0.4 million of share-based compensation was recorded relating to the DSUs (2019 - $nil).

Cash Settled Restricted Share Units ("CSRSUs")

Prior to the establishment of the PSUP, the Corporation issued CSRSUs in the form of phantom share agreements to certain employees. Compensation expense for these Units was recognized at fair value as share-based compensation expense over the three-year vesting period, with a corresponding increase or decrease in the resulting liability. The liability was remeasured at fair value at each reporting date and at settlement.

On September 28, 2020, all remaining 140,000 CSRSUs were renounced and in exchange, 140,000 RSUs were issued under the Corporation's PSUP in settlement thereof. As at December 31, 2020, no CSRSUs remain outstanding (2019 – 140,000).

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

For the year ended December 31, 2020, $nil share-based compensation expense was recorded for the CSRSUs (2019 – recovery of $0.1 million).

13. Revenue

The following tables include a reconciliation of disaggregated revenue by reportable segment (Note 17). Revenue has been disaggregated by primary geographic location, type of service provided and the amount that relates to lease revenue.

Year ended December 31, 2020	Drilling Services	Production Services	Ancillary Services	Inter-Segment Elimination	**Total**
Revenue from contracts with customers:					
Canada	$ -	$ 46.7	$ 1.7	$ -	**$ 48.4**
US	-	2.9	-	-	**2.9**
PNG	22.1	-	-	-	**22.1**
	22.1	49.6	1.7	-	**73.4**
Operating rental revenue:					
Canada	-	8.2	4.4	(1.8)	**10.8**
PNG	3.3	-	3.3		**6.6**
	3.3	8.2	7.7	(1.8)	**17.4**
Total revenue	$ 25.4	$ 57.8	$ 9.4	$ (1.8)	**$ 90.8**

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

14. Other income

For the year ended December 31, 2019, the Corporation recognized other income of $1.1 million, of which $1.0 million was for the reduction of a contingent liability which arose as a result of the Powerstroke Well Control Inc. business acquisition that took place in August 2018. The Corporation determined that no portion of the acquisition targets were achieved, resulting in the release of the liability in 2019, in accordance with the agreement.

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

15. Supplementary expense disclosure

Oilfield services expenses by nature		**Year ended December 31, 2020**		Year ended December 31, 2019
Personnel costs (1)	**$**	**43.4**	$	85.0
Drilling rig rental costs		**3.4**		15.5
Material and supplies costs		**7.9**		22.2
Equipment operating and maintenance costs		**11.0**		20.9
Other		**3.8**		6.7
	$	**69.5**	$	150.3

(1) Costs presented net of government assistance as described in accounting policy Note 3(t) and below.

General and administrative expenses by nature		**Year ended December 31, 2020**		Year ended December 31, 2019
Personnel costs (1)	**$**	**8.5**	$	11.7
Professional, legal and consulting fees		**1.4**		1.1
Facility costs (1)		**0.7**		0.6
Bad debt provision		**0.6**		0.5
Information technology services		**0.9**		0.9
Rentals		**0.3**		0.6
Other		**0.4**		0.4
	$	**12.8**	$	15.8

(1) Costs presented net of government assistance as described in accounting policy Note 3(t) and below.

Interest and finance expense		**Year ended December 31, 2020**		Year ended December 31, 2019
Interest on facility & standby fees (Note 10)	**$**	**0.4**	$	0.2
Other bank charges		**0.1**		0.2
Finance expense (Note 9)		**0.4**		0.5
Other		**0.2**		0.2
	$	**1.1**	$	1.1

As a result of CEWS, the resulting reduction of wages amounted to $6.1 million for the year ended December 31, 2020, with $5.3 million allocated to Oilfield service expenses, and $0.8 million allocated to General and administrative expenses. Amounts recorded as Accounts Receivable amount to $1.4 million at December 31, 2020 (2019 – N/A).

As a result of CERS, the resulting government rental subsidy of $0.1 million for the year ended December 31, 2020 has been recorded as a reduction in Oilfield expenses for the same amount. The full amount is owing and recorded as part of Accounts receivable at December 31, 2020 (2019 – N/A).

The Corporation applied for and is eligible for government wage subsidy programs similar to CEWS in foreign jurisdictions where it maintains permanent employees. Such subsidies have amounted to approximately $0.1 million to December 31, 2020, with the majority offset against wages in General and administrative expenses. All foreign wage subsidy amounts have been received by December 31, 2020.

For the year ended December 31, 2020 $1.6 million of restructuring costs are included in Personnel costs, with $0.8 million recorded as part of Oilfield services and $0.8 million recorded as part of General and administrative expenses. No such amounts were recorded in 2019.

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

16. Income tax

a) Income tax expense

Income tax expense recorded in the Financial Statements include the following:

	Year ended December 31, 2020	Year ended December 31, 2019
Current income tax expense:		
Jurisdictions outside of North America	**$ 1.6**	$ 3.0
Total current income tax expense	**$ 1.6**	$ 3.0
Deferred income tax recovery:		
Jurisdictions outside of North America	**$ (1.9)**	$ (0.5)
Total deferred tax recovery	**$ (1.9)**	$ (0.5)
Total tax expense (recovery)		
Jurisdictions outside of North America	**$ (0.3)**	$ 2.5
Total tax expense (recovery)	**$ (0.3)**	$ 2.5

	Year ended December 31, 2020	Year ended December 31, 2019
Net loss before income tax	**$ (26.2)**	$ (6.3)
Canadian statutory tax rate	**24.2%**	26.55%
Expected income tax expense (recovery)	**$ (6.3)**	$ (1.7)
Increase (decrease) resulting from:		
Alberta tax rate reduction	**(0.2)**	3.4
Effect of foreign tax and rates	**1.9**	0.7
Non-deductible differences	**0.2**	0.2
Change in unrecognized deferred tax asset	**3.5**	1.9
Loss on investment	**-**	(0.4)
Reconciliation to prior year provision	**0.5**	(0.8)
Other	**0.1**	(0.8)
Total income tax expense (recovery)	**$ (0.3)**	$ 2.5
Effective tax rate	**1.1%**	(39.6%)

The provision for income tax differs from the result that would be obtained by applying the expected Canadian tax rate of 24.2% (2019 – 26.6%) against the net loss before income taxes. The difference results mainly from both the reduction in deferred tax assets as well as the reduction in effective tax rates in Alberta from 11.5% in 2019 to an average rate during 2020 of 9.0%. By December 31, 2020, Alberta's provincial tax rate has been set at 8% for 2021 and beyond.

The Corporation's effective tax rate of 1.1% in 2020 compared to (39.6%) in 2019, was impacted by a number of reconciling items, with the largest being due to the Alberta tax rate reduction and the impact of the change in the unrecognized portion of the deferred tax asset as well as the reconciliation to the prior year provision.

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

b) Deferred tax assets (liabilities)

Differences between the accounting and tax bases of assets and liabilities at expected tax rates upon anticipated reversal of such differences create deferred tax assets and liabilities on the statement of financial position.

The following table summarizes the deferred income tax assets and liabilities by jurisdiction:

	Year ended December 31, 2020	Year ended December 31, 2019
Deferred income tax assets (liabilities:		
Property & equipment	$ **(4.5)**	$ (9.2)
Right of use assets	**(1.3)**	(1.6)
Lease liabilities	**2.1**	2.3
Non-capital losses	**30.9**	31.4
Capital losses	**4.6**	4.6
Unrecognized deferred tax asset	**(24.4)**	(20.1)
Other	**0.2**	0.2
	7.6	7.6
Deferred income tax liabilities:		
Property & equipment	**(8.1)**	(10.2)
	(8.1)	(10.2)
Net deferred income tax liabilities	$ **(0.5)**	$ (2.6)

The following tables summarize the movements of the deferred income tax assets and liabilities during the year:

	January 1, 2020	Recognized in net loss	Exchange differences	December 31, 2020
Deferred income tax assets (liabilities):				
Property & equipment	$ (9.2)	4.7	-	$ **(4.5)**
Right of use assets	(1.6)	0.3	-	**(1.3)**
Lease liabilities	2.3	(0.2)	-	**2.1**
Non-capital losses	31.4	(0.5)	-	**30.9**
Capital losses	4.6	-	-	**4.6**
Unrecognized deferred tax asset	(20.1)	(4.3)	-	**(24.4)**
Other	0.2	-	-	**0.2**
	7.6	-	-	**7.6**
Deferred income tax liabilities:				
Property and equipment	(10.2)	1.9	0.2	**(8.1)**
	(10.2)	1.9	0.2	**(8.1)**
Net deferred income tax asset (liabilities)	$ (2.6)	1.9	0.2	$ **(0.5)**

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

	January 1, 2019	Recognized in net loss	Exchange differences	December 31, 2019
Deferred income tax assets (liabilities):				
Property & equipment	$ (9.4)	0.2	-	$ (9.2)
Right of use assets	-	(1.6)	-	(1.6)
Investments	0.4	(0.4)	-	-
Lease liabilities	-	2.3	-	2.3
Capital lease obligation	0.2	(0.2)	-	-
Other long-term liabilities	0.9	(0.9)	-	-
Non-capital losses	28.6	2.8	-	31.4
Capital losses	5.0	(0.4)	-	4.6
Unrecognized deferred tax asset	(18.5)	(1.6)	-	(20.1)
Other	0.4	(0.2)	-	0.2
	7.6	-	-	7.6
Deferred income tax liabilities:				
Property and equipment	(11.3)	0.5	0.6	(10.2)
	(11.3)	0.5	0.6	(10.2)
Net deferred income tax asset (liabilities)	$ (3.7)	0.5	0.6	$ (2.6)

At December 31, 2020 and 2019, deferred tax assets created through the accumulation of non-capital losses were reviewed to assess the probability that future taxable profit could be utilized against such losses, and it was determined that no valuation allowance was required to reduce this amount.

c) Non-capital losses

Total Canadian non-capital losses carried forward for income tax purposes was $124.9 million at December 31, 2020 (2019 - $130.5 million), which expire in years 2027 through 2040.

At December 31, 2020, the total US non-capital losses carried forward for income tax purposes was USD $5.9 million (2019 - $2.3 million) which can be carried forward indefinitely.

d) Capital losses

At December 31, 2020 and 2019, the capital losses carried forward for income tax purposes was $39.6 million, which can be carried forward indefinitely, but only used against capital gains.

e) Withholding taxes

The government of PNG levies withholding taxes when funds are repatriated out of the country, which includes intercompany dividends. For the year ended December 31, 2020, withholding tax levied associated with such charges amounted to $1.0 million (2019 - $1.0 million) and are recorded as part of current income tax expense in the statement of net earnings (loss). The average dividend withholding rate is estimated to be 15% (2019 – 15%).

The government of PNG levies foreign contractor withholding tax at 15% (2019 – 15%) on all PNG revenue earned within the Singapore entity. Customers deduct this tax and remit directly to the government in PNG. For the year ended December 31, 2020, this amounted to $0.5 million (2019 - $1.9 million).

Earnings retained by subsidiaries that may be subject to dividend withholding taxes in the country of origin upon repatriation. At December 31, 2020, the estimated amount of withholding tax on such earnings amounted to approximately $2.7 million (2019 – $4.3 million), using the current withholding rate of 15% (2019 – 15%).

f) Income tax receivable

Income tax receivable and other assets totaling $3.3 million relate to installment payments made to the PNG government. The Corporation estimates that $0.3 million is a current receivable (2019 - $3.3 million), representing estimated 2021 PNG income tax. The remaining $3.0 million (2019 - $nil) is to be utilized beyond 2021 and, as a result, has been classified as a long-term asset.

17. 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 December 31, 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 third quarter of 2020.

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 as well as its Canadian nitrogen services.

Corporate

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

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

Details associated with each geographic and operating segment are provided for the year ended and as at December 31, 2020 and 2019 in the tables which follow.

Year ended/As at December 31, 2020	Drilling Services	Production Services	Ancillary Services	Corporate	Inter-Segment Elimination	**Total**
Revenue	$ 25.4	$ 57.8	$ 9.4	$ -	$ (1.8)	**$ 90.8**
Expenses						
Oilfield Services	18.8	47.7	4.8	-	(1.8)	**69.5**
General and administrative	2.5	4.9	0.5	4.9	-	**12.8**
Depreciation	10.3	18.5	6.6	0.1	-	**35.5**
Share-based compensation	-	-	-	0.5	-	**0.5**
	31.6	71.1	11.9	5.5	(1.8)	**118.3**
Operating loss	(6.2)	(13.3)	(2.5)	(5.5)	-	**(27.5)**
Foreign exchange loss	-	-	-	0.2	-	**0.2**
Gain on sale of property & equipment	-	-	(2.6)	-	-	**(2.6)**
Interest and finance expense	-	-	-	1.1	-	**1.1**
Earnings (Loss) before income tax	(6.2)	(13.3)	0.1	(6.8)	-	**(26.2)**
Property and equipment	41.0	77.4	23.3	-	-	**141.7**
Right-of-use assets	0.3	-	-	5.8	-	**6.1**
Total assets less deferred tax assets	$ 56.6	$ 111.4	$ 38.6	$ -	$ -	**$ 206.6**

Year ended/As at December 31, 2019	Drilling Services	Production Services	Ancillary Services	Corporate	Inter-Segment Elimination	Total
Revenue	$ 71.5	$ 92.4	$ 24.6	$ -	$ (3.0)	$ 185.5
Expenses						
Oilfield Services	56.4	85.9	11.0	-	(3.0)	150.3
General and administrative	4.2	6.5	0.9	4.2		15.8
Depreciation	10.1	9.8	8.1	0.3		28.3
Share-based compensation	-	-	-	0.5		0.5
	70.7	102.2	20.0	5.0	(3.0)	194.9
Operating income (loss)	0.8	(9.8)	4.6	(5.0)	-	(9.4)
Foreign exchange gain	-	-	-	(0.3)	-	(0.3)
Gain on sale of property & equipment	-	(0.1)	(2.7)	-	-	(2.8)
Other income	-	-	-	(1.1)	-	(1.1)
Interest and finance expense	-	-	-	1.1	-	1.1
Earnings (loss) before income tax	0.8	(9.7)	7.3	(4.7)	-	(6.3)
Property and equipment	51.9	90.8	31.2	0.2	-	174.1
Right-of-use assets	-	-	-	7.4	-	7.4
Total assets less deferred tax assets	$ 98.6	$ 111.0	$ 33.0	$ 1.6	$ -	$ 244.2

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

December 31, 2020	PNG	Canada	US	Interco Eliminations	**Total**
Revenue	$ 28.7	$ 60.7	$ 2.9	$ (1.5)	**$ 90.8**
Total assets excluding deferred tax assets	$ 85.8	$ 120.6	$ 0.2	-	**$ 206.6**

December 31, 2019	PNG	Canada	US	Interco Eliminations	Total
Revenue	$ 84.4	$ 92.3	$ 11.0	$ (2.2)	$ 185.5
Total assets excluding deferred tax assets	$ 110.2	$ 129.6	$ 4.4	$ -	$ 244.2

18. Supplementary cash flow information

Changes in non-cash working capital balances:

	Year ended December 31 **2020**	2019
Source (use) of cash:		
Accounts receivable	**$ 26.9**	$ (3.3)
Inventory and prepaid expenses	**0.3**	1.1
Accounts payable and accrued liabilities	**(14.1)**	2.6
Dividend payable	**(0.8)**	-
Income taxes payable	**(0.1)**	(0.4)
Income taxes receivable	**3.0**	(3.3)
Deferred revenue	**(0.7)**	0.5
Impact of foreign exchange on working capital	**0.2**	-
	$ 14.7	$ (2.8)

Attributable to:		
Operating activities	**$ 16.9**	$ (2.6)
Investing activities	**(1.4)**	(0.2)
Financing activities	**(0.8)**	-
	$ 14.7	$ (2.8)

For the year ended December 31, 2020, interest amounting to $0.4 million was paid (2019 - $0.2 million).

For the year ended December 31, 2020, income taxes paid amounted to $1.7 million (2019 - $6.7 million).

19. Financial instruments and risk management

<u>Fair values of financial instruments</u>

Financial assets and liabilities recorded or disclosed at fair value in the Financial Statements are categorized based on the level of judgement associated with the inputs used to measure their respective fair values.

Hierarchical levels are based on the amount of subjectivity associated with the inputs in the fair value determination and are as follows:

Level 1 – Quoted prices are used in an active market for identical assets or liabilities at the measurement date.

Level 2 – Observable inputs are used (direct or indirect) through correlation with market data at the measurement date. This is other than quoted prices that would be included in Level 1.

Level 3 – Inputs used are not observable, and are based on management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The fair value of accounts receivable, accounts payable and accrued liabilities and dividends payable approximate their carrying values due to the short-term nature of these instruments.

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(d), and other such pandemics and endemics 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:

a) Interest;
b) commodity prices;
c) foreign currency exchange rates; and
d) PNG foreign currency restrictions.

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-security risks increase as employees work from home. Such restrictions could significantly impact the ability for the Corporation to operate, and therefore impact financial results.

a) Interest rate risk

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

b) 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 almost all 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.

This includes implications from declining oil demand and over supply, climate change driven transitions to lower emission energy sources, the current COVID-19 pandemic which creates a scenario of both downward and fluctuating price pressure as well as the implications of changes to government and government policy including the policy directions that will be taken by the new US President and ongoing negotiations in PNG to build LNG expansion with industry. While High Arctic recognizes that the Corporation will be impacted by these risks, the Corporation also strongly believes that there is a significant role for the energy services industry in the current, transitionary and future phases of energy industry changes.

c) Foreign currency risk

Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results.

The majority of the Corporation's international revenue and expenses are effectively transacted in USD and the Corporation does not actively engage in foreign currency hedging. For the year ended December 31, 2020, a $0.10 change in the exchange rate of the Canadian dollar relative to the USD would have resulted in change in net loss amounting to $0.6 million as a result of changes in foreign exchange (2019 - $0.1 million).

d) 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").

As at December 31, 2020 USD $0.9 million (2019 - $2.9 million) was on deposit with a large international bank in PNG. The Bank of PNG ("BPNG") has provided approval for High Arctic to maintain a USD bank account in accordance with the BPNG currency regulations. The Corporation has received approval from the BPNG for its existing drilling services contracts with its key customers in PNG to be denominated and settled in USD. However, if such approval is withdrawn in the future, these funds may be converted into PGK and the Corporation would be required to access the foreign currency market in PNG to meet its foreign currency obligations, thus exposing the Corporation to greater foreign exchange exposure for the PGK.

The BPNG currency regulations also limit the amount of foreign currency that companies can maintain in order to meet their forecasted three-month cash flow requirements, with excess funds required to be held in 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.

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In providing for expected credit losses, 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 year ended December 31, 2020.

Sales to these two customers were approximately $20.7 million and $19.9 million for the year ended December 31, 2020 (2019 - $84.3 million and $22.8 million). Of the $12.9 million recorded in Accounts receivable at December 31, 2020 (2019 – $39.8 million), $2.2 million (2019 - $16.3 million) or 17% (2019 – 41%) related to these two 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 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.

20. Related party transactions

Director and executive personnel

The table below summarizes all Board of Director and executive compensation:

		Year ended December 31, 2020		Year ended December 31, 2019
Directors’ fees, executive wages including short-term employee benefits	**$**	**2.2**	$	2.1
Share-based compensation		**0.5**		0.3
Total	**$**	**2.7**	$	2.4

One executive officer has a change of control clause (2019 – three executive officers) that would result in additional wages and benefit expense being accrued if executed, as well as immediate vesting in outstanding share-based compensation plans.

Included in executive wages are severance amounts of $0.3 million paid during 2020 (2019 - nil). Certain amounts relating to 2019 were adjusted to ensure the same individuals were included in the calculations of wages and benefits.

21. 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 $7.9 million (December 31, 2019 - $8.0 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.