

HIGH ARCTIC ENERGY SERVICES INC.



CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015



March 21, 2017

Independent Auditor's Report

To the Shareholders of High Arctic Energy Services Inc.

We have audited the accompanying consolidated financial statements of High Arctic Energy Services Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016, December 31, 2015 and January 1, 2015, and the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and December 31, 2015, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of High Arctic Energy Services Inc. and its subsidiaries as at December 31, 2016, December 31, 2015 and January 1, 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and December 31, 2015, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

PricewaterhouseCoopers LLP

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High Arctic Energy Services Inc.
Consolidated Statements of Financial Position
As at December 31, 2016 and 2015
(Canadian \$ Million)

	Notes	December 31, 2016	December 31, 2015 (note 4)	January 1, 2015 (note 4)
Assets				
Current assets				
Cash and cash equivalents		27.3	15.5	37.2
Accounts receivable	7	49.1	42.4	20.6
Short term investments	8	4.8	10.6	-
Inventory	9	8.8	8.0	5.0
Prepaid expenses		0.7	0.9	0.8
		<u>90.7</u>	<u>77.4</u>	<u>63.6</u>
Non-current assets				
Property and equipment	11	209.2	161.7	119.9
Deferred tax asset	20	5.2	5.0	5.0
Loans due from related parties		-	-	0.2
		<u>-</u>	<u>-</u>	<u>0.2</u>
Total assets		<u>305.1</u>	<u>244.1</u>	<u>188.7</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	12	33.8	23.6	17.4
Income taxes payable		0.1	7.5	3.5
Dividend payable	15	0.9	0.9	0.9
Capital lease obligation	13	1.7	-	-
Current portion of deferred revenue	14	1.6	2.2	0.2
Current portion of long-term debt	17	24.0	-	-
		<u>62.1</u>	<u>34.2</u>	<u>22.0</u>
Non-current liabilities				
Deferred revenue	14	0.9	2.6	0.4
Unfavourable lease liability	10	3.3	-	-
Long-term debt	17	-	4.0	-
Deferred tax liability	20	8.6	2.1	0.7
		<u>12.8</u>	<u>8.7</u>	<u>1.1</u>
Total liabilities		<u>74.9</u>	<u>42.9</u>	<u>23.1</u>
Shareholders' equity	18	<u>230.2</u>	<u>201.2</u>	<u>165.6</u>
Total liabilities and shareholders' equity		<u>305.1</u>	<u>244.1</u>	<u>188.7</u>
Commitments and contingencies	26			

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Corporation by:

(signed) "Michael Binnion" Director

(signed) "Dan Bordessa" Director

High Arctic Energy Services Inc.
Consolidated Statements of Earnings and Comprehensive Income
For the years ended December 31, 2016 and 2015
(Canadian \$ Million, except per share amounts)

		2016	2015 (see Note 4)
	Notes		
Revenue	29	<u>208.0</u>	<u>209.9</u>
Expenses			
Oilfield services	21	122.4	131.1
General and administration	21	14.8	14.8
Depreciation	11	24.4	16.7
Share-based compensation	19	<u>1.1</u>	<u>1.8</u>
		<u>162.7</u>	<u>164.4</u>
Operating earnings		45.3	45.5
Acquisition costs	10	2.3	-
Gain on acquisition	10	(12.7)	-
Foreign exchange (gain) loss		(0.5)	0.7
(Gain) loss on sale of property and equipment		(0.1)	0.5
Interest and finance expense		<u>0.7</u>	<u>0.4</u>
Net earnings before income taxes		55.6	43.9
Current income tax expense	20	8.9	10.8
Deferred income tax expense	20	<u>1.6</u>	<u>1.2</u>
		<u>10.5</u>	<u>12.0</u>
Net earnings for the year		45.1	31.9
Earnings per share:	18		
Basic		0.85	0.58
Diluted		0.84	0.57
		2016	2015 (see Note 4)
Net earnings for the year		45.1	31.9
Other comprehensive income:			
Items that may be reclassified subsequently to net income:			
Foreign currency translation gains (losses) for foreign operations		(4.3)	24.2
Items that may not be reclassified subsequently to net income:			
Gains (losses) on short term investments, net of tax (note 8)		<u>3.2</u>	<u>(5.9)</u>
Comprehensive income for the year		44.0	50.2

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2016 and 2015
(Canadian \$ Million)

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings (deficit)	Total shareholders' equity
Balance at January 1, 2016 as previously reported		189.7	9.4	34.5	(32.4)	201.2
Cumulative effect of change in accounting policy	4	-	-	(4.8)	4.8	-
Balance at January 1, 2016, Restated		189.7	9.4	29.7	(27.6)	201.2
Net earnings		-	-	-	45.1	45.1
Dividends	15	-	-	-	(10.5)	(10.5)
Other comprehensive income - foreign currency translation loss		-	-	(4.3)	-	(4.3)
Other comprehensive income - gain on short term investments	8	-	-	3.2	-	3.2
Purchase of common shares for cancellation	18	(6.7)	0.2	-	-	(6.5)
Share-based payment transactions		2.5	(0.5)	-	-	2.0
Balance at December 31, 2016		185.5	9.1	28.6	7.0	230.2

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained deficit	Total shareholders' equity
Balance at January 1, 2015		194.3	8.5	11.4	(48.6)	165.6
Net earnings		-	-	-	31.9	31.9
Dividends	15	-	-	-	(10.9)	(10.9)
Other comprehensive income - foreign currency translation gain		-	-	24.2	-	24.2
Other comprehensive income - loss on short term investments	8	-	-	(5.9)	-	(5.9)
Purchase of common shares for cancellation	18	(5.5)	(0.2)	-	-	(5.7)
Share-based payment transactions		0.9	1.1	-	-	2.0
Balance at December 31, 2015, Restated		189.7	9.4	29.7	(27.6)	201.2

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Canadian \$ Million)

	Notes	2016	2015 (see Note 4)
Net earnings for the year		45.1	31.9
Adjustments for:			
Depreciation	11	24.4	16.7
Provision for onerous lease	16	0.3	-
Share-based compensation	19	1.1	1.8
Gain on acquisition	10	(12.7)	-
(Gain) loss on sale of property and equipment		(0.1)	0.5
Foreign exchange loss		0.1	0.7
Deferred income tax expense	20	1.6	1.2
		<u>59.8</u>	<u>52.8</u>
Net changes in items of working capital	24	(7.9)	(7.3)
Net cash generated from operating activities		<u>51.9</u>	<u>45.5</u>
Investing activities			
Additions of property and equipment	11	(9.6)	(40.0)
Business acquisition	10	(42.8)	-
Disposal (acquisition) of short term investments	8	9.0	(16.5)
Disposal of property and equipment	11	0.1	0.2
Net changes in items of working capital	24	-	(3.1)
Net cash used in investing activities		<u>(43.3)</u>	<u>(59.4)</u>
Financing activities			
Long-term debt proceeds	17	42.6	15.0
Long-term debt repayments	17	(22.6)	(11.0)
Dividend payments	15	(10.5)	(10.9)
Purchase of common shares for cancellation	18	(6.5)	(5.7)
Issuance of common shares, net of costs	18	1.6	0.4
Capital lease obligation payments	13	(0.8)	-
Loan receivable receipts	25	-	0.2
Net cash (used in) provided by financing activities		<u>3.8</u>	<u>(12.0)</u>
Effect of exchange rate changes		<u>(0.6)</u>	<u>4.2</u>
Net change in cash and cash equivalents		<u>11.8</u>	<u>(21.7)</u>
Cash and cash equivalents – beginning of year		<u>15.5</u>	<u>37.2</u>
Cash and cash equivalents – end of year		<u>27.3</u>	<u>15.5</u>
Cash paid for:			
Interest		0.7	0.4
Income taxes		15.2	6.8

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Canadian \$ Million)

1 Nature of Business

High Arctic Energy Services Inc. ("High Arctic" or "the Corporation") is incorporated under the laws of Alberta, Canada and is a publicly traded Corporation listed on the Toronto Stock Exchange under the symbol "HWO". The head office of the Corporation is located at 700 – 2nd Street S.W. Suite 500, Calgary, Alberta, Canada, T2P 2W1. High Arctic's business is to provide contract drilling, well servicing, completion services, equipment rentals and other oilfield services to the oil and natural gas industry in Papua New Guinea and Canada.

2 Basis of Preparation

The consolidated financial statements ("Financial Statements") of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These consolidated financial statements have been prepared in compliance with IFRS.

The Financial Statements of High Arctic for the year ended December 31, 2016 were approved by the Board of Directors on March 21, 2017.

3 Significant Accounting Policies

Basis of measurement

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

Principles of consolidation

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

Business Combinations

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

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

Foreign currency

a) Functional and presentation currency:

Items included in the Financial Statements of each consolidated entity of the Corporation are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Canadian \$ Million)

b) Foreign operations:

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

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

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

c) Transactions and balances:

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

Cash and cash equivalents

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

Financial instruments

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

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

Initial measurement of financial instruments

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

a) Cash and cash equivalents

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

b) Trade and other receivables

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

c) Equity investments

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

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

d) Debt investments

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

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Canadian \$ Million)

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

e) **Financial liabilities**

Financial liabilities are initially recognized at fair value when the outflow of economic benefit is probable and costs of the obligation can be measured reliably. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and since the Corporation does not have any financial liabilities designated at fair value through profit or loss, the adoption of IFRS 9 did not impact our accounting policies for financial liabilities.

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

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through earnings or loss or other liabilities. The Corporation determines the classification of its financial liabilities at initial recognition.

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

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

Property and equipment

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

Depreciation is recognized in the statement of earnings using various methods over the estimated useful lives of certain assets at the following rates:

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Canadian \$ Million)

	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	20%	-	Declining balance
Drilling support	12.5% - 20%	-	Declining balance
Hydraulic workover and UB rigs	12.5% - 15%	-	Declining balance
Snubbing	15% - 17.5%	-	Declining balance
Nitrogen	17.50%	-	Declining balance
Rentals and matting	20%	-	Declining balance
Light vehicles	30%	-	Declining balance
Heavy trucks	15% - 20%	-	Declining balance
Buildings	4%	-	Declining balance
Office equipment and computer hardware	20% - 30%	-	Declining balance
Computer software	50% - 100%	-	Declining balance
Leasehold improvements	Lease term or five years	-	Declining balance

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. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate. Land is not depreciated.

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

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.

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

Impairment of financial assets

The Corporation's trade and lease receivables are subject to the expected credit loss model under IFRS 9. For trade and lease receivables, the Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the lifetime expected loss provision, the Corporation considered historical industry default rates as well as credit ratings of specific customers.

Impairment of non-financial assets

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

Should the recoverable amount not be determinable on an individual asset basis, it is estimated for groups of assets by determining the recoverable amount of the group of assets. This is done by determining the value of the discounted cash inflows less the discounted cash outflows of the group of assets. For the purposes of assessing impairment on groups of assets, the individual assets are grouped together into cash generating units ("CGUs"). Such CGUs represent the lowest level for which there are separately identifiable cash inflows.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of earnings so as to reduce the carrying amount to its recoverable amount.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Canadian \$ Million)

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of earnings.

Employee benefits

a) Defined contribution pension plan:

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

b) Bonus plans:

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

c) Share-based plans:

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. Details regarding the determination of the fair value of stock options are set out in the share-based compensation note.

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 equity instruments that will eventually vest. At the end of each reporting period, the Corporation revises its estimate of the number of equity instruments 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 new shares. The proceeds received plus the amount of the related previously recognized benefit in contributed surplus are credited to share capital.

The Corporation has an Executive and Director Share Incentive Plan under which common shares may be issued to directors and executives. A share-based compensation amount for the common shares issued under the plan is measured as the number of common shares multiplied by the trading price of the Corporation's shares at the time of the grant and that amount is amortized over the vesting period. Each vesting period is treated as a separate tranche for measurement of the non-cash share-based compensation expense. The share-based compensation for each tranche is expensed based on the vesting date for that tranche resulting in a proportionally greater amount being recognized in the earlier periods.

The Corporation has awarded Restricted Share Units ("RSUs") to officers of the Corporation. Each RSU carries the right to a cash payment based upon the trading price of the common shares when exercised.

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

Provisions

Provisions for legal claims and other obligations, where applicable, are recognized in accrued liabilities 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.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Canadian \$ Million)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of discounts, and after eliminating intercompany sales. The Corporation bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the rendering of services is recognized as services are provided when the following criteria are met:

- the amount of revenue can be measured reliably;
- the receipt of economic benefits is probable; and
- costs incurred and to be incurred can be measured reliably.

The Corporation may receive payments from its customers for services yet to be rendered. As service is provided to the customer and the Corporation incurs expenses the Corporation recognizes revenue for the value of the service provided to that point in time.

Interest and finance costs

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, 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 in the period in which they are incurred.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of earnings on a straight-line basis over the period of the lease.

Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date in the jurisdictions where the business 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 utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share capital

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

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Canadian \$ Million)

Dividends

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

Earnings per share

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

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 operating segments: drilling services, production services, ancillary services and corporate.

4 Changes in Accounting Policies

Impact of Adoption of IFRS 9

As disclosed in the December 31, 2015 consolidated financial statements, the Corporation has early adopted, as of January 1, 2016, all of the requirements of IFRS 9, *Financial Instruments*, as amended in July 2014 ("IFRS 9"). The Corporation elected to apply the standard retrospectively including the restatement of comparative figures.

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 which has introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Financial Statements of the Corporation.

The early adoption of IFRS 9 has been applied retrospectively and did not result in a change in the carrying value of any of High Arctic's financial instruments on transition date. The main area of change is the accounting for equity securities previously classified as available for sale. The revised policy of accounting for short term investments resulted in a decrease to retained deficit on December 31, 2015 of \$4.8 million with a corresponding decrease to accumulated other comprehensive income and no impact on the earliest comparative period presented and restated (January 1, 2015). Had the Corporation continued to apply IAS 39 a loss of \$0.9 million would have been recognized in earnings upon the disposition of an investment in the current period.

The effect on the Consolidated Statement of Financial Position was as follows:

As at December 31, 2015	Accumulated other comprehensive income	Retained deficit	Total shareholders' equity
Balance as previously reported	34.5	(32.4)	201.2
Effect of adoption of IFRS 9	(4.8)	4.8	-
Restated balance	29.7	(27.6)	201.2

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The effect on the Consolidated Statement of Earnings and Comprehensive Income was as follows:

	Year ended December 31, 2015
Decrease in loss on short term investments, net of taxes	(4.8)
Increase in net earnings for the period	4.8
Effect on Comprehensive income for the period	-

The effect on earnings per share was as follows:

	Year ended December 31, 2015
Balance as previously reported	
- Basic	0.49
- Diluted	0.48
Effect of adoption of IFRS 9	
- Basic	0.09
- Diluted	0.09
Restated balance	
- Basic	0.58
- Diluted	0.57

The effect on the Consolidated Statement of Cash Flows was as follows:

	Year ended December 31, 2015
Increase in net earnings for the period	4.8
Decrease in unrealized loss on short term investments	(4.8)
Effect on net cash generated from operating activities	-

Additional disclosures

Details about the Corporation's short term investments can be found in the notes to the consolidated financial statements as at December 31, 2015. Additional and restated disclosures as at December 31, 2015, as required by IFRS 9 are as follows:

High Arctic periodically invests in the common shares and debt instruments of certain publicly traded oil and natural gas service companies. As at December 31, 2015, the investments are presented at a fair value of \$10.6 million which is \$5.9 million less than the original cost. The difference in fair value of \$5.9 million has been charged to other comprehensive income in 2015. Short term investments consist of the following:

	December 31, 2015
Investments in equity securities	10.2
Investments in debt securities	0.4
Total	10.6

Initial measurement of financial instruments

The Corporation classifies and measures financial assets and liabilities on initial recognition consistent with the policies described in Note 3.

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5 Future Accounting Policies

Leases

On January 13, 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating most leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases.

IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 "Revenue From Contracts With Customers" has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is currently evaluating the impact of adopting IFRS 16 on the Financial Statements.

Revenue Recognition

In May 2014, the IASB published IFRS 15, "Revenue From Contracts With Customers" ("IFRS 15") replacing IAS 11, "Construction Contracts", IAS 18, "Revenue" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is currently evaluating the impact of adopting IFRS 15 on the Financial Statements.

Liabilities Arising from Financing Activities

In January 2016, the IASB has published amendments to IAS 7 'Statement of Cash Flows'. The amendment requires an entity to provide additional disclosures related to the changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendment is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. When an entity first applies the amendment, it is not required to provide comparative information in respect of preceding periods. The Corporation is currently evaluating the impact of adopting the amendments to IAS 7 on the Financial Statements.

6 Critical Accounting Estimates and Judgments

The preparation of the Corporation's Financial Statements in conformity with IFRS requires management to make judgments, 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 judgments 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 judgments that have a significant impact on the Corporation's financial results include the allowance for doubtful accounts, depreciation, impairment of property and equipment, income taxes and share-based compensation.

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.

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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.

Depreciation

Depreciation of the Corporation's property and equipment incorporates estimates of useful lives and residual values. Equipment under construction is not depreciated until it is available for use. Included in property and equipment is equipment under a financing lease. These estimates may change as more experience is obtained or as general market conditions change, thereby impacting the value of the Corporation's property and equipment.

Impairment of property and equipment

Property and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of market prices, market supply and demand, margins and discount rates. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its expected recoverable amount.

Income taxes

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

Share-based compensation

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

Business Acquisition

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

Critical accounting judgments

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

Functional currency

The determination of functional currency is based on the primary economic environment (including monetary policy) in which an entity operates. The functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Factors that the Corporation considers when determining the functional currency of its subsidiaries include: (i) the currency that the delivery of goods and services are contracted in, (ii) the currency used to conduct business in the region, (iii) the currency that mainly influences labour, material and other costs of providing goods or services, (iv) the currency in which receipts from operating

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activities are usually retained in. When the indicators are mixed and the functional currency of an entity is not obvious, management uses its judgment to determine the functional currency that most appropriately represents the economic effects of the underlying transactions, events and conditions. Judgment was applied in determining the functional currency of the operations in Papua New Guinea to be US dollars.

7 Accounts Receivable

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

	2016	2015
Less than 31 days	30.3	23.8
31 to 60 days	13.9	12.6
61 to 90 days	4.3	5.1
Greater than 90 days	0.7	1.6
Allowance for doubtful accounts	(0.1)	(0.7)
Total	49.1	42.4

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

Canadian dollar	12.4	4.6
United States dollar (2016 – US \$27.4; 2015 – US \$27.3;)	36.7	37.8
Total	49.1	42.4

8 Short Term Investments

High Arctic periodically invests in the common shares and debt instruments of certain publicly traded oil and gas service companies. As at December 31, 2016, the investments are presented at a fair value of \$4.8 million (December 31, 2015 - \$10.6 million) which is \$1.7 million (December 31, 2015 - \$5.9 million) less than the original cost. The difference in fair value of \$1.7 million has been included in accumulated other comprehensive income. For the year ended December 31, 2016, increases in fair value of \$3.2 million have been included in other comprehensive income.

During the year ended December 31, 2016, the Corporation disposed of investments in equity securities, which had an original cost of \$9.9 million, for proceeds of \$9.0 million. The resulting loss of \$0.9 million has been included in other comprehensive income.

Short term investments consist of the following:

	2016	2015
Investments in equity securities	4.8	10.2
Investments in debt securities	-	0.4
Total	4.8	10.6

9 Inventory

As at December 31, 2016 the Corporation had inventory of \$8.8 million (2015 - \$8.0 million), which is primarily comprised of parts and materials related to maintenance, recertification and refurbishment of rigs and rig-related

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equipment. During the year ended December 31, 2016, the Corporation did not recognize an impairment on inventory items (2015 – \$0.4 million).

10 Business Acquisition

On August 31, 2016, High Arctic acquired the Production Services Division of Tervita Corporation (the “PS Division”) by payment of cash in the amount of \$42.8 million. The acquisition diversifies High Arctic’s revenue base within the Canadian well servicing industry. The acquisition has been accounted for as a business combination using the acquisition method of accounting whereby the assets acquired and the liabilities assumed are recorded at estimated fair value on the acquisition date. 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 a gain on acquisition. Transaction costs associated with the acquisition are expensed when incurred.

The Corporation recognized a gain on the acquisition of the PS Division as the total fair value of the net assets acquired, based on an independent appraisal, exceeds the fair value of the consideration paid.

The following table summarizes the allocation of the purchase price:

Cash and cash equivalents	42.8
Consideration	42.8
Property and equipment (see note 11)	64.0
Unfavourable lease liability – current portion	(0.4)
Unfavourable lease liability – long-term portion	(3.4)
Deferred tax liability (see note 20)	(4.7)
Fair value of net assets acquired	55.5
Gain on acquisition	12.7

The Corporation relied on a third party appraisal for the fair value of the assets acquired, less management’s estimate of the liability associated with an unfavorable lease assumed in the transaction and the deferred income taxes associated with the timing differences between the tax and accounting values for the net assets acquired. Changes to any of these assumptions or estimates could impact the amounts assigned to assets acquired, liabilities assumed, and the gain on the acquisition.

Subsequent to the acquisition date, the PS Division’s operating results have been included in the Corporation’s revenues, expenses and capital spending. From the date of acquisition on August 31, 2016, the PS Division contributed an estimated \$20.1 million of revenue and \$1.7 million of net earnings before tax for the Corporation. If the business combination had been completed on January 1, 2016, the estimated revenue and net earnings before tax for the year ended December 31, 2016 would have been \$54.2 million and \$2.6 million, respectively for the PS Division. The estimated pro forma revenue and net earnings before tax have been adjusted as if the acquisition occurred on January 1, 2016, 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, 2016, or the results that may occur in the future.

During the year ended December 31, 2016, High Arctic incurred \$2.3 million of various costs related to the acquisition of the PS Division which are recognized as an expense in the statement of earnings and comprehensive income. These costs relate mainly to advisory, legal, consulting and transition support costs.

Depreciation of the property and equipment acquired is recognized in the statement of earnings and is at the same rates as is calculated for High Arctic’s existing assets with the addition of service rigs which will be depreciated on a straight-line basis with a 10% salvage value over 10 to 20 years, depending on the component of the service rigs.

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11 Property and Equipment

The following tables provide a continuity of the property and equipment costs, net of impairment and accumulated depreciation, and provide details of the effects of foreign currency translation for the years ended December 31, 2016 and 2015.

Cost:	Vehicles	Oilfield equipment	Computer hardware and office equipment	Land & Building	Work-in-progress	Total
Balance January 1, 2015	13.2	152.3	3.2	5.2	53.1	227.0
Additions	-	3.4	-	0.1	36.5	40.0
Disposals	(0.8)	(2.9)	(0.8)	-	-	(4.5)
Transfers	0.3	88.5	0.3	-	(89.1)	-
Effect of foreign exchange	-	26.9	-	-	-	26.9
Balance December 31, 2015	12.7	268.2	2.7	5.3	0.5	289.4
Acquisition (see note 10)	1.0	55.0	-	8.0	-	64.0
Additions	-	-	-	-	10.2	10.2
Capital lease obligation (note 13)	-	-	-	-	2.5	2.5
Disposals	(0.6)	(2.9)	-	-	-	(3.5)
Transfers	0.5	11.0	0.3	-	(11.8)	-
Effect of foreign exchange	-	(5.5)	-	-	-	(5.5)
Balance December 31, 2016	13.6	325.8	3.0	13.3	1.4	357.1

Accumulated depreciation and impairments:	Vehicles	Oilfield equipment	Computer hardware and office equipment	Land & Building	Work-in-progress	Total
Balance, January 1, 2015	9.3	95.2	2.5	0.1	-	107.1
Depreciation for the year	0.7	15.5	0.4	0.1	-	16.7
Disposals	(0.7)	(2.4)	(0.7)	-	-	(3.8)
Effect of foreign exchange	-	7.7	-	-	-	7.7
Balance, December 31, 2015	9.3	116.0	2.2	0.2	-	127.7
Depreciation for the year	0.7	23.3	0.2	0.2	-	24.4
Disposals	(0.5)	(2.3)	-	-	-	(2.8)
Effect of foreign exchange	-	(1.4)	-	-	-	(1.4)
Balance, December 31, 2016	9.5	135.6	2.4	0.4	-	147.9

Carrying amounts of property and equipment:

At December 31, 2015	3.4	152.2	0.5	5.1	0.5	161.7
At December 31, 2016	4.1	190.2	0.6	12.9	1.4	209.2

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12 Accounts Payable and Accrued Liabilities

	2016	2015
Accounts payable	18.3	13.5
Accrued liabilities	9.5	7.0
Accrued payroll	5.3	3.1
Unfavourable lease liability (see note 10)	0.4	-
Onerous lease liability (see note 16)	0.3	-
Total	33.8	23.6

13 Capital Lease Obligation

During 2016, the Corporation received certain equipment under a finance lease with a purchase option after a twelve-month lease term as well as an option to extend the lease term by additional twelve months. The fair value of the equipment of \$2.5 million has been included with property and equipment with a corresponding lease obligation liability that is reduced by the principal portion of the monthly payments related to the principal of the lease. As at December 31, 2016, future minimum lease payments totaled \$1.7 million (including the potential exercise of the purchase option) and are all due within one year. These future lease payments include an amount of \$0.1 million representing interest, and as at December 31, 2016 the remaining obligation related to the lease was \$1.7 million.

Subsequent to year end the Corporation exercised the option to extend the lease term by additional twelve months with an option to purchase the equipment at the end of the extended lease term, thereby increasing future minimum lease payments to \$1.9 million (including the potential exercise of the purchase option), of which \$0.2 million represents interest.

14 Deferred Revenue

Pursuant to contracts related to the provision of drilling rigs, the Corporation has received payments that will be recognized as revenue in future periods over the life of the related drilling contracts. As at December 31, 2016 \$1.6 million (December 31, 2015 - \$2.2 million) will be recognized as revenue in the next twelve months and has been disclosed as a current liability with the remaining \$0.9 million (December 31, 2015 - \$2.6 million) disclosed as a non-current liability.

15 Dividend Payable

Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. During 2016, the Corporation declared dividends of \$10.5 million (2015 - \$10.9 million), of which \$0.9 million was payable as of December 31, 2016 (December 31, 2015 - \$0.9 million). Since December 31, 2016, a monthly dividend of \$0.0165 per share has been declared for a total of \$1.8 million.

16 Onerous Lease

During Q4 2016, the Corporation has relocated its head office to accommodate additional employees joining High Arctic as a result of the acquisition of the Production Services division of Tervita. The Corporation has subleased the previous office space for the remaining lease term of 39 months. Due to the current downturn in the Calgary downtown real estate market, High Arctic subleased the space at a rate that was below the contracted rate in the lease agreement, resulting in an onerous lease liability of \$0.3 million as at December 31, 2016 (December 2015 - nil).

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17 Long-Term Debt

As at December 31, 2016, High Arctic's credit facilities consisted of a \$40.0 million revolving loan and a \$5.0 million revolving operating loan which was scheduled to mature on August 31, 2017, resulting in the \$24.0 million balance outstanding at December 31, 2016 being reported as a current liability. Subsequent to year end, the facilities were combined into a single \$45.0 million revolving loan and extended to August 31, 2019. The facility is renewable with the lender's consent and is secured by a general security agreement over the Corporation's assets.

The available amount under the extended \$45.0 million revolving loan facility is limited to 60% of the net book value of the Canadian fixed assets plus 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement.

The Corporation's loan facilities are subject to three financial covenants, which are reported to the lender on a quarterly basis: Funded Debt to EBITDA; Fixed Charge Coverage Ratio; and Current Ratio. There have been no changes to these financial covenants subsequent to December 31, 2016 and the Corporation remains in compliance with the financial covenants under its credit facility as at December 31, 2016.

18 Share Capital and Other Components of Equity

(a) Share Capital

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

Issued:	2016		2015	
	Shares	\$	Shares	\$
Balance, beginning of year	54,330,169	189.5	55,645,652	194.1
Issuance of shares upon exercise of options (note 19)	703,400	2.5	208,800	0.7
Normal course issuer bid	(1,911,400)	(6.7)	(1,569,983)	(5.5)
Vested restricted shares (note 19)	52,200	0.1	45,700	0.2
Common shares outstanding	53,174,369	185.4	54,330,169	189.5
Restricted shares outstanding (note 19)	6,600	0.1	58,800	0.2
Total common and restricted shares outstanding	53,180,969	185.5	54,388,969	189.7

Issuance of Shares

For the year ended December 31, 2016, a total of 703,400 stock options were exercised (2015 – 208,800) for shares of the Corporation (see note 19).

Normal Course Issuer Bid

In January, 2015, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 5 percent of the Corporation's issued and outstanding common shares under a Normal Course Issuer Bid ("the Bid"). The Bid commenced on January 12, 2015 and was valid for one year. As of December 31, 2015, 1,569,983 common shares had been purchased and cancelled pursuant to the Bid at a total cost of \$5.7 million. An additional 65,600 common shares were purchased in January, 2016 prior to the conclusion of the one year period.

In January, 2016, the Corporation received approval from the Toronto Stock Exchange to renew the Bid for a one year period. As of December 31, 2016, 1,845,800 common shares had been purchased and cancelled at a total cost of \$6.5 million pursuant to the renewal.

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(b) Per Share Amounts

The following table summarizes the weighted average number of common shares used in calculating basic and diluted earnings per share. All potentially dilutive instruments such as options and the restricted shares issued under the Executive and Director Share Incentive Plan are considered.

	2016		2015	
	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings per share	52,981,751	\$0.85	55,001,756	\$0.58
Dilution effect of options	372,852	(0.01)	1,041,462	(0.01)
Weighted average number of common shares used in diluted earnings per share	53,354,603	\$0.84	56,043,218	\$0.57

For the year ended December 31, 2016, 596,600 stock options (2015 – 2,490,738) were excluded from the calculation of diluted earnings per share as the effect would have been anti-dilutive.

19 Share-based Compensation

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. A total of 5,318,097 options (being 10% of all outstanding shares) are available for grants. At December 31, 2016, a total of 1,851,600 options are outstanding and expire at various dates up to 2021, at amounts that range from \$1.74 to \$5.32 per share. These options are exercisable over a term of 5 years and are generally subject to a three year vesting period with 40% exercisable by the holder after the first anniversary date, 70% after the second anniversary date and 100% after the third anniversary date. The options have an average remaining contractual life of 2.8 years and 1,424,550 options are currently vested and eligible to be exercised.

	Number of Options	Weighted Average Exercise Price \$/Share
Total Outstanding January 1, 2015	3,247,100	3.65
Granted	614,000	3.67
Exercised	(208,800)	2.08
Forfeited	(112,400)	4.75
Expired	(7,700)	3.90
Total Outstanding December 31, 2015	3,532,200	3.71
Granted	205,000	3.62
Exercised	(953,400)	2.26
Forfeited	(511,800)	4.25
Expired	(420,400)	4.82
Total Outstanding December 31, 2016	1,851,600	4.04

The options exercised in 2016 had a weighted average market price of \$4.21 per share on the date of exercise.

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Exercise Price Range	Options Outstanding			Exercisable Options	
	Number of Options	Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
\$1.00 to \$2.11	36,000	0.4	1.74	36,000	1.74
\$2.12 to \$2.83	124,000	1.8	2.75	124,000	2.75
\$3.39 to \$3.87	1,095,000	3.1	3.61	859,250	3.57
\$4.77 to \$5.32	596,600	2.8	5.23	405,300	5.24
Total Outstanding					
December 31, 2016	1,851,600	2.8	4.04	1,424,550	3.93

Share-based compensation is a non-cash item and is measured in accordance with a prescribed formula. Share-based compensation expense recognized by the Corporation for the Stock Option Plan for the year ended December 31, 2016 was \$0.4 million (2015 - \$1.4 million). The fair values of stock options granted have been estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Year of Grant	2016	2015
Average fair value per option granted	0.70	0.64
Average expected life (years)	3.0	3.0
Expected volatility (%)	38	39
Expected forfeiture rate (%)	27	21
Average risk-free interest rate (%)	0.58	0.53
Expected distribution yield (%)	5.5	5.4

Share Incentive Plan

In 2010, the shareholders approved an Executive and Director Share Incentive Plan (the "EDSIP"). The maximum number of common shares initially available for issuance by the Corporation under the EDSIP was 7,578,444 common shares of which 113,444 common shares remain available for issue at December 31, 2016. These shares are issued in trust for the benefit of designated beneficiaries and vest to each designated beneficiary over a three-year period. The designated beneficiaries of the restricted common shares held in trust have full voting, liquidity, dividend and other related rights similar to the holders of the unrestricted issued common shares. The shares are not freely tradable prior to vesting and any shares that do not meet the vesting conditions are returned by the trustee to the Corporation for cancellation. The number of restricted shares granted is reflected under the total issued and outstanding common shares while the value of these shares will be included in the common share capital amount as they vest with an equivalent share based compensation amount recorded.

A share-based compensation amount for the common shares issued under the EDSIP is measured as the number of common shares multiplied by the trading price of the Corporation's common shares at the time of the grant and that amount is amortized over the vesting period. Each vesting period is treated as a separate tranche for measurement of the non-cash share-based compensation expense. The share-based compensation for each tranche is expensed based on the vesting date for that tranche resulting in a proportionally greater amount being recognized in the earlier periods.

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Restricted Common Shares outstanding under the Share Incentive Plan are as follows:

	2016	2015
Balance, beginning of year	58,800	123,000
Grant of common shares	-	-
Vested common shares	(52,200)	(45,700)
Forfeitures	-	(18,500)
Balance, end of year	6,600	58,800

For the year ended December 31, 2016, the Corporation incurred share based compensation expense of \$0.1 million (2015- \$0.2 million) related to the EDSIP and an amount of up to \$0.1 million (before recognizing a reduction for any future forfeitures of common shares) remains to be amortized in future periods in respect of the common shares issued to date under the Plan. A forfeiture rate of nil has been assumed in the share based compensation expense assumptions with the expense adjusted when actual forfeitures occur.

Restricted Share Units

The Corporation has a restricted share unit plan for the purpose of developing the interest of employees in the growth and development of the Corporation by providing them to rights to share value based on the number of RSUs granted. The RSU vesting period is up to three years and will be settled in cash at a predetermined settlement date or when exercised by the holder.

	2016	2015
Outstanding, beginning of year	80,000	80,000
Granted	100,000	-
Forfeited	(26,400)	-
Settled in cash	-	-
Balance, end of year	153,600	80,000

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

For the year ended December 31, 2016, the Corporation incurred share based compensation expense of \$0.6 million (2015 -\$0.1 million) related to the 153,600 RSUs outstanding and an amount of up to \$0.1 million (before recognizing a reduction for any future forfeitures) remains to be amortized in future periods in respect of the RSUs.

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20 Income Taxes

Income tax expense

The provision for income taxes in the consolidated statement of earnings varies from the amount that would be computed by applying the expected future income tax rate of 27.0% (2015 – 26.0%) to the net earnings before income taxes.

The effective tax rates are as follows:

	2016	2015
Net earnings before income taxes	55.6	43.9
Canadian statutory tax rate	27.0%	26.0%
Computed income tax expense at the statutory rate	15.0	11.4
Increase (decrease) resulting from:		
Non-deductible expenses	0.3	1.1
Non-taxable income	(0.3)	-
Impact of adoption of IFRS 9	-	(1.2)
Gain on acquisition	(3.4)	-
Tax rate differences for foreign subsidiaries	1.9	0.7
Canadian timing differences not recognized for tax purposes	(3.0)	-
Income tax expense	10.5	12.0
Effective tax rate	18.9%	27.3%

Deferred income taxes

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

	2016	2015
Deferred income tax assets (liabilities)		
Unused non-capital losses	9.7	5.0
Property and equipment	(13.1)	(2.1)
Net deferred income tax assets (liabilities)	(3.4)	2.9
Deferred income tax assets by jurisdiction:		
Canada	9.7	5.0
	9.7	5.0
Deferred income tax liabilities by jurisdiction:		
Canada	(4.5)	-
PNG	(8.6)	(2.1)
	(13.1)	(2.1)
Net deferred income tax assets (liabilities)	(3.4)	2.9

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As at December 31, 2016 a deferred tax asset of \$5.2 million (2015 – \$5.0 million) was recognized in the statement of financial position based on the probability that the Corporation will generate taxable income in Canada in the future.

A deferred tax liability of \$4.7 million was recognized in 2016 due timing differences between the tax and accounting values for the net assets acquired through the acquisition of the Production Services Division of Tervita Corporation.

At each reporting period, the Corporation assesses its ability to utilize the deductible temporary differences based on its history of profitability, the current industry activity in Canada and the expectation of future taxable profitability. The deductible temporary differences for which no charges or benefits have been booked that relate to the available Canadian tax pools are as follows:

	2016	2015
Property and equipment	(32.1)	(5.0)
Non- capital losses	54.8	62.4
Financing costs	3.6	3.0
Finance lease	1.7	-
Onerous lease	4.0	-
Total	32.0	60.4

Earnings retained by subsidiaries that may be subject to dividend withholding taxes in the country of origin upon repatriation amounted to \$108.9 million as at December 31, 2016. The average dividend withholding rate is estimated to be 15%. A provision has been made for withholding and other taxes that would become payable on the distribution of a portion of these earnings because the Corporation controls the relevant entities and has committed plans to remit the earnings in the foreseeable future.

At December 31, 2016, the Canadian non-capital losses carried forward for income tax purposes was \$90.7 million (2015 – \$80.9 million) which expires in years 2024 through 2035. Also at December 31, 2016, the Canadian capital losses carried forward for income tax purposes was \$36.9 million (2015 – \$36.0 million) which can be carried forward indefinitely but only used against capital gains. The Corporation has the ability to file amended tax returns to adjust certain discretionary deductions to mitigate the risk of expiring loss carry forwards.

21 Expenses

Oilfield services expenses by nature	2016	2015
Personnel costs and personnel related costs	53.9	53.8
Drilling rig rental cost	34.2	42.9
Material and supplies cost	23.4	25.0
Equipment operating and maintenance costs	9.0	7.9
Other	1.9	1.5
Total	122.4	131.1

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General and administrative expenses by nature	2016	2015
Personnel costs and personnel related costs	10.8	10.0
Professional, legal and consulting fees	1.1	1.1
Facility costs	1.2	1.4
Leases	1.4	1.1
Other	0.3	1.2
Total	14.8	14.8

22 Wages and Benefit Expense

	2016	2015
Salaries and wages and short-term employee benefits	62.3	60.9
Post-employment benefits	0.2	0.1
	62.5	61.0
Stock based compensation	1.1	1.8
Total	63.6	62.8

Compensation of key management	2016	2015
Salaries and wages and short-term employee benefits	2.2	2.7
Post-employment benefits	0.1	0.1
	2.3	2.8
Stock based compensation	1.0	1.3
Total	3.3	4.1

Key management includes the Corporation's directors and executive officers.

23 Significant Subsidiaries

The following table lists the Corporation's principal subsidiaries, the jurisdiction of formation or incorporation of such subsidiaries and the percentage of shares owned, directly or indirectly, by the Corporation as of December 31, 2016:

Name of Subsidiary	Jurisdiction of Formation or Incorporation	Percentage Ownership Of Shares Beneficially Owned or Controlled Directly or Indirectly by the Corporation
High Arctic Energy Services Cyprus Limited	Cyprus	100
High Arctic Energy Services PNG Limited	Papua New Guinea	100
High Arctic Energy Services (Singapore) PTE Ltd.	Singapore	100
High Arctic Energy Services Australia PTY Ltd.	Australia	100

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24 Supplemental Cash Flow Information

Changes in non-cash working capital is comprised of:

	Note	2016	2015
Accounts receivable	7	(7.6)	(18.3)
Inventory and prepaid expenses		(0.6)	(2.2)
Accounts payable and accrued liabilities	12	9.5	3.2
Income taxes payable	20	(7.1)	3.2
Deferred revenues	14	(2.1)	3.7
Total		(7.9)	(10.4)
Related to:			
Operating activities		(7.9)	(7.3)
Investing activities		-	(3.1)
		(7.9)	(10.4)

25 Related Party Transactions

The Corporation's related parties include its wholly-owned subsidiaries and the directors and officers of the Corporation. Balances and transactions between the Corporation and its subsidiaries are eliminated on consolidation and, therefore, are not disclosed. The Corporation enters into transactions with related parties from time to time, which are in the normal course of business and measured at the exchange amount, which is considered similar to those negotiable with third parties.

Loans

In 2014, the Corporation made loans to certain officers of the Corporation in the total aggregate amount of \$0.2 million. The purpose of the loans was to assist the officers with the payment of Canadian income taxes arising on the issuance of common shares of the Corporation under the Corporation's EDSIP (see Note 19). The principal amount of each loan bore interest at an annual rate of 2%. Each loan was fully payable on the earlier of (i) thirty days after the date that a Borrower ceased to be an employee of the Corporation and (ii) August 15, 2017. As at December 31, 2015, the loans had been fully repaid.

Other Expenses

During 2016, \$41,000 was paid to a company, owned in part by three directors of the Corporation, for services provided to the Corporation.

26 Commitments and Contingencies

Inventory

The Corporation has been supplied an inventory of spare parts with a value of \$7.4 million by a customer in Papua New Guinea. The inventory is owned by the customer and has not been recorded on the books of High Arctic. At the end of the contract, the Corporation must return an equivalent amount of inventory to the customer. In 2016, the Corporation has recorded a provision of \$0.7 million against accrued liabilities to account for potential shortfall in inventory, which may be cash settled with the customer.

Financing and Operating Lease Obligations

The Corporation has entered into long-term premise leases for operating facilities. These leases are operating leases and the remaining length of the lease terms are up to sixteen years. All the premise leases have renewal

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terms which allow the Corporation to renew the lease for various lengths at the market rates negotiated at the time of renewal. The minimum lease payments for the next sixteen years as at December 31, 2016 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility and equipment lease commitments	1.9	2.2	1.6	9.5	15.2
Total lease commitments	1.9	2.2	1.6	9.5	15.2

27 Capital Disclosures

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

	2016	2015
Shareholders' equity	230.2	201.2
Current portion of long-term debt	24.0	-
Long term debt	-	4.0
Cash and cash equivalents	(27.3)	(15.5)
Total Capitalization	226.9	189.7

The Corporation's goal is to have a capital structure that will provide the capital to meet the needs of its business and instil confidence with investors, creditors and capital markets.

Financing decisions for the foreseeable future will be governed largely by managing the available cash and liquidity available under the Corporation's credit facilities based on the timing and extent of expected operating and capital cash outlays. Future equity and debt financings are a possibility to raise capital for new business opportunities.

28 Financial Instruments and Risk Management

Fair Value of Financial Assets and Liabilities

Cash and cash equivalents include cash and term deposits and are classified as financial assets at fair value through profit and loss. Cash and cash equivalents are measured at fair value and unrealized gains or losses related to changes in fair value are reported in income. Accounts receivable, prepaid expenses and other receivables are classified as assets at amortized cost using the effective interest method, less impairment allowance, if any. Any gains or losses on the realization of loans and receivables are included in earnings. The fair value of accounts and other receivables and the demand portion of any amounts due from related parties approximate their carrying values due to the short-term nature of these instruments.

The Corporation's short term investments are designated as financial assets at fair value through other comprehensive and are initially recognized at fair value on the settlement date, net of directly attributable transaction costs. Future changes in fair value are recognized in other comprehensive income (OCI), net of tax and are not recycled into income. Financial assets at fair value comprise listed Canadian public company investments. These assets are carried at fair value on the Consolidated Statements of Financial Position. Fair value is determined by quoted prices in active markets for identical assets (Level 1).

Accounts payable and accrued liabilities and the long-term debt are designated as other liabilities and are recorded at amortized cost.

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Financial and Other Risks

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

Market Risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market rates of interest, foreign currency exchange rates and commodity prices.

Other Price Risk

Other price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer or factors affecting all similar financial instruments in the market or a market segment. Exposure to other price risk is primarily in short term investments where changes in quoted prices on investments in equity securities impact the underlying value of investments.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk as the long term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. For the year ended December 31, 2016 a one percent change in interest rates on the loan facility would not have been material.

Foreign Currency Risk

Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results. The majority of the Corporation's international revenue and expenses are transacted in U.S. dollars and the Corporation does not actively engage in foreign currency hedging. For the year ended December 31, 2016, a \$0.10 change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a \$2.7 million change in net earnings for the year as a result of changes in foreign exchange.

Credit Risk and Customers

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

The Corporation's accounts receivables are predominantly with customers who explore for and develop petroleum reserves and are subject to normal industry credit risks. The Corporation assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding. The Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Corporation uses the historical default rates within the industry between investment grade and non-investment grade customers as well as forward looking information to determine the appropriately loss allowance provision.

The Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation provides services to four large multinational/regional customers (2015 – three) which individually accounted for greater than 10% of its consolidated revenues during 2016. Sales to these four customers were approximately \$66.3 million, \$21.3 million, \$32.4 million and \$44.6 million respectively for the year ended December 31, 2016 (2015 - \$63.5 million, \$98.1 million, \$7.5 million and \$2.3 million). As at December 31, 2016, these four customers represented 16%, 16%, 22%, and 19%, respectively, of outstanding accounts receivable (December 31, 2015 – three customers represented a total of 80%). Management has assessed the four customers as creditworthy and the Corporation has had no history of collection issues with these customers.

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Liquidity Risk

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

2016					Total
	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	
Accounts payable	33.8	-	-	-	33.8
Dividends payable	0.9	-	-	-	0.9
Long term debt ⁽¹⁾	24.5	-	-	-	24.5
Total	59.2	-	-	-	59.2

⁽¹⁾ Long term debt includes future expected interest payments.

2015					Total
	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	
Accounts payable	23.6	-	-	-	23.6
Dividends payable	0.9	-	-	-	0.9
Long term debt ⁽¹⁾	0.2	4.1	-	-	4.3
Total	24.7	4.1	-	-	28.8

29 Operating Segments

The Corporation determines its operating segments based on internal information reviewed by the Board of Directors to allocate resources and assess performance. The Corporation's reportable operating segments, as determined by management, are strategic operating units that offer different products and services. The accounting policies for each reportable segment are the same as those described in Note 3. The Corporation operates in two geographic areas and four operating segments as follows:

Drilling Services

This segment currently consists of the Corporation's drilling services provided in PNG.

Production Services

This segment currently consists of the Corporation's well servicing and snubbing services provided in Canada.

Ancillary Services

Ancillary services segment provides rental equipment, nitrogen transport services and engineering consulting to various companies within the oil and gas sector in Canada and PNG.

Corporate

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

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2016	Drilling Services	Production Services	Ancillary Services	Corporate	Inter-Segment Elimination	Total
Revenue	144.6	34.1	30.7	-	(1.4)	208.0
Expenses						
Oilfield Services	89.9	26.8	7.1	-	(1.4)	122.4
General and administrative	5.4	4.1	1.8	3.5	-	14.8
Depreciation	9.4	6.9	8.1	-	-	24.4
Share-based compensation	-	-	-	1.1	-	1.1
	104.7	37.8	17.0	4.6	(1.4)	162.7
	39.9	(3.7)	13.7	(4.6)	-	45.3
Transaction cost	-	-	-	2.3	-	2.3
Gain on acquisition	-	-	-	(12.7)	-	(12.7)
Loss (gain) on sale of assets	-	(0.1)	-	-	-	(0.1)
Foreign exchange loss (gain)	-	-	-	(0.5)	-	(0.5)
Interest and finance expense	-	-	-	0.7	-	0.7
Earnings (losses) before income tax	39.9	(3.6)	13.7	5.6	-	55.6
Property and equipment	82.6	90.8	35.6	0.2	-	209.2
Total assets less deferred tax assets	145.8	103.9	45.2	5.0	-	299.9

2015	Drilling Services	Production Services	Ancillary Services	Corporate	Inter-Segment Elimination	Total
Revenue	151.8	22.5	35.6	-	-	209.9
Expenses						
Oilfield Services	107.0	15.1	9.0	-	-	131.1
General and administrative	6.2	3.7	1.8	3.1	-	14.8
Depreciation	4.1	4.4	8.2	-	-	16.7
Share-based compensation	-	-	-	1.8	-	1.8
	117.3	23.2	19.0	4.9	-	164.4
	34.5	(0.7)	16.6	(4.9)	-	45.5
Loss (gain) on sale of assets	-	0.4	-	0.1	-	0.5
Foreign exchange loss (gain)	-	-	-	0.7	-	0.7
Interest and finance expense	-	-	-	0.4	-	0.4
Earnings (losses) before income tax	34.5	(1.1)	16.6	(6.1)	-	43.9
Property and equipment	93.9	26.4	41.3	0.1	-	161.7
Total Assets less deferred tax assets	145.0	30.8	52.6	10.7	-	239.1

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2016	PNG	Canada	Inter-Segment Eliminations	Total
Revenue	166.0	42.0	-	208.0
Total assets less deferred tax assets	197.1	102.8	-	299.9

2015	PNG	Canada	Inter-Segment Eliminations	Total
Revenue	177.8	32.1	-	209.9
Total assets less deferred tax assets	184.4	54.7	-	239.1