HIGH ARCTIC ENERGY SERVICES INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2013

High Arctic Energy Services Inc.

Consolidated Statements of Financial Position

As at March 31, 2013 and December 31, 2012

Unaudited – Canadian $ Millions

	Notes	March 31, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		23.4	27.4
Accounts receivable		32.0	19.0
Inventories		3.9	3.6
Prepaid expenses		0.5	0.7
Income tax receivable		0.9	1.5
		60.7	52.2
Non-current assets			
Property and equipment	5	65.3	61.3
Deferred income tax asset		5.0	5.0
Loans due from related parties	11	0.4	0.4
Total assets		**131.4**	**118.9**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		18.4	14.6
Income taxes payable		0.8	0.5
Dividend payable	7	0.6	0.5
		19.8	15.6
Non-current liabilities			
Long-term debt	6	13.7	13.7
Deferred income tax liability		1.0	1.0
Total liabilities		**34.5**	**30.3**
Shareholders' equity	7	**96.9**	**88.6**
Total liabilities and shareholders' equity		**131.4**	**118.9**
Commitments and contingencies	12,15		

See accompanying notes to the condensed consolidated interim financial statements.

High Arctic Energy Services Inc.

Consolidated Statements of Earnings and Comprehensive Income

For the three months ended March 31, 2013 and 2012

Unaudited - Canadian $ Millions, except per share amounts

	Notes	2013	2012
Revenue	16	44.8	42.2
Expenses			
Oilfield services	9	29.9	25.7
General and administration	9	2.3	2.2
Share-based compensation	8	0.2	0.4
Amortization	5	2.6	2.3
Foreign exchange loss (gain)		-	(0.1)
		35.0	30.5
Operating earnings		**9.8**	**11.7**
Interest and finance expense		0.2	0.2
Net earnings before income taxes		**9.6**	**11.5**
Current income tax expense		1.2	0.8
Net earnings for the period		**8.4**	**10.7**
Earnings per share:	7		
Basic		0.17	0.23
Diluted		0.17	0.22

	2013	2012
Net earnings for the period	**8.4**	**10.7**
Other comprehensive income (loss):		
Items that may be reclassified subsequently to net income:		
Foreign currency translation gains (losses) for foreign operations	1.3	(0.9)
Comprehensive income for the period, net of tax	**9.7**	**9.8**

See accompanying notes to the condensed consolidated interim financial statements.

High Arctic Energy Services Inc.

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2013 and 2012

Unaudited - Canadian $ Millions

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained deficit	Total equity
Balance at January 1, 2013		168.5	7.3	(2.4)	(84.8)	88.6
Net earnings for the period		-	-	-	8.4	8.4
Dividends	7	-	-	-	(1.6)	(1.6)
Other comprehensive income		-	-	1.3	-	1.3
Share-based payment transactions	8	0.2	-	-	-	0.2
Balance at March 31, 2013		**168.7**	**7.3**	**(1.1)**	**(78.0)**	**96.9**

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained deficit	Total equity
Balance at January 1, 2012		167.9	6.6	(1.3)	(109.6)	63.6
Net earnings for the period		-	-	-	10.7	10.7
Other comprehensive income (loss)		-	-	(0.9)	-	(0.9)
Share-based payment transactions	8	0.2	0.2	-	-	0.4
Balance at March 31, 2012		**168.1**	**6.8**	**(2.2)**	**(98.9)**	**73.8**

See accompanying notes to the condensed consolidated interim financial statements.

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the three months ended March 31, 2013 and 2012

Unaudited - Canadian $ Millions

	Notes	2013	2012
Operating activities			
Net earnings for the period		8.4	10.7
Adjustments for:			
Amortization	5	2.6	2.3
Share-based compensation	8	0.2	0.4
		11.2	13.4
Net changes in items of non-cash working capital	10	(8.4)	(4.3)
Net cash generated from operating activities		2.8	9.1
Investing activities			
Property and equipment		(5.9)	(1.6)
Net cash used in investing activities		(5.9)	(1.6)
Financing activities			
Dividend payments	7	(1.5)	-
Issuance of common shares	7	0.1	-
Repayment of long-term debt		-	(1.3)
Debt transaction costs		-	0.1
Net cash used in financing activities		(1.4)	(1.2)
Net change in cash and cash equivalents		(4.5)	6.3
Effect of foreign exchange on cash and cash equivalents		0.5	(0.3)
Cash and cash equivalents – beginning of period		27.4	16.5
Cash and cash equivalents – end of period		**23.4**	**22.5**
Cash paid for:			
Interest		0.1	0.1
Income taxes		0.3	0.5

See accompanying notes to the condensed consolidated interim financial statements.

1 Nature of business

High Arctic Energy Services Inc. ("High Arctic" or "the Corporation") is incorporated under the laws of Alberta, Canada and is a publicly traded corporation listed on the Toronto Stock Exchange under the symbol "HWO". The head office of the Corporation is located at 8112 Edgar Industrial Drive, Red Deer, Alberta, Canada, T4P 3R2. High Arctic's principal focus is to provide contract drilling, completion services and other oilfield services to the oil and gas industry in Canada and Papua New Guinea.

As of March 31, 2013, 20,401,534 common shares of the Corporation were owned by FBC Holdings S.A.R.L. representing 41% of the outstanding common shares and restricted shares.

2 Basis of Preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 – Interim Financial Reporting ("IAS 34"). The condensed consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2012, except for the new standards, interpretations and amendments mandatorily effective for the first time from January 1, 2013, as described in Note 3 and income taxes, which in interim periods are accrued based on an estimate of the annualized effective tax rate applied to year to date taxable earnings and the changes in accounting policies as described below. The disclosures provided below do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements and the notes thereto for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

These interim consolidated financial statements were approved by the Corporation's Board of Directors on May 10, 2013, after review by the Corporation's Audit Committee.

3 Changes in Accounting Policies

New standards and amendments effective for the first time

Effective January 1, 2013, the Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. The following new standards and amendments were made in accordance with the applicable transitional provisions, but have not had a material impact on the Corporation:

- IFRS 7: *Financial Instruments: Disclosures*
- IFRS 10: *Consolidated Financial Statements*
- IFRS 11: *Joint Arrangements*
- IFSR 12: *Disclosure of Interests in Other Entities*
- IFRS 13: *Fair Value Measurement*
- IAS 27: *Separate Financial Statements*
- IAS 28: *Investments in Associates and Joint Ventures*
- IAS 19: *Employee Benefits*

Effective January 1, 2013, the Corporation adopted the amendments to IAS 1, *Presentation of Financial Statements*. These amendments require the Corporation to group items within other comprehensive income by those that will be subsequently reclassified to net earnings and those that will not. Accordingly, the Corporation has updated the presentation of other comprehensive income in the Consolidated Statements of Earnings and Comprehensive Income. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.
There were no new or amended standards issued during the three months ended March 31, 2013 that are applicable for the Corporation for future periods. A description of standards and interpretations, other than

those indicated above, that will be adopted by the Corporation in future periods can be found in the notes to the annual Consolidated Financial Statements for the year ended December 31, 2012.

4 Seasonality of Operations

The Corporation's Canadian oilfield services operations are seasonal in nature and are impacted by weather conditions that may hinder the Corporation's ability to access locations or move heavy equipment. The lowest activity levels are experienced during the second quarter of the year when road weight restrictions are in place and access to well sites in Canada is reduced.

5 Property and Equipment

The following tables provide a continuity of the property and equipment costs, net of impairment and accumulated amortization, and provide details of the effects of foreign currency translation for the year ended December 31, 2012 and the three months ended March 31, 2013.

Costs:	Light vehicles	Heavy trucks	Oilfield equipment	Computer hardware and office equipment	Land	Work-in-progress	Total
Balance January 1, 2012	**2.6**	**19.5**	**102.8**	**2.7**	**-**	**1.0**	**128.6**
Additions	0.4	0.7	10.9	0.3	1.2	6.4	19.9
Transfers	-	(6.0)	6.0	-	-	-	-
Disposals	(0.1)	(1.0)	-	-	-	-	(1.1)
Effect of foreign exchange	(0.2)	(0.1)	(0.8)	-	-	-	(1.1)
Balance December 31, 2012	**2.7**	**13.1**	**118.9**	**3.0**	**1.2**	**7.4**	**146.3**
Additions	-	-	5.1	-	-	0.8	5.9
Effect of foreign exchange	-	0.1	0.8	-	-	0.1	1.0
Balance March 31, 2013	**2.7**	**13.2**	**124.8**	**3.0**	**1.2**	**8.3**	**153.2**

Accumulated amortization and impairments:	Light vehicles	Heavy trucks	Oilfield equipment	Computer hardware and office equipment	Land	Work-in-progress	Total
Balance January 1, 2012	**1.0**	**14.5**	**59.3**	**1.9**	**-**	**-**	**76.7**
Amortization for the year	0.4	0.8	8.3	0.2	-	-	9.7
Transfers	-	(5.3)	5.3	-	-	-	-
Disposals	(0.1)	(0.9)	(0.1)	-	-	-	(1.1)
Effect of foreign currency exchange	-	(0.1)	(0.2)	-	-	-	(0.3)
Balance December 31, 2012	**1.3**	**9.0**	**72.6**	**2.1**	**-**	**-**	**85.0**
Amortization for the period	0.1	0.2	2.2	0.1	-	-	2.6
Effect of foreign currency exchange	-	-	0.3	-	-	-	0.3
Balance March 31, 2013	**1.4**	**9.2**	**75.1**	**2.2**	**-**	**-**	**87.9**
Carrying amounts:							
At December 31, 2012	**1.4**	**4.1**	**46.3**	**0.9**	**1.2**	**7.4**	**61.3**
At March 31, 2013	**1.3**	**4.0**	**49.7**	**0.8**	**1.2**	**8.3**	**65.3**

6 Long-Term Debt

The main components of the Corporation's long-term debt are a $30 million revolving loan and a $5 million revolving operating loan. The maturity date of both main components is August 31, 2014 and no principal payments are required prior to that date. The long-term debt continues to be secured by all of the assets of the Canadian parent and by guarantees given by its material foreign subsidiaries.

The long-term debt agreement permits borrowing in Canadian or US dollars and contains an interest rate grid whereby the interest rate applicable to borrowings will vary according to the currency of the borrowings and a prescribed leverage ratio. The Corporation's existing borrowings are all denominated in Canadian dollars and carry an annual interest rate equal to the lender's prime interest rate plus 1.0% and an annual standby fee of 0.35% on any undrawn portion of the facilities. The effective interest rate on the amended long-term debt was 4% for the period from October 1, 2012 to March 31, 2013.

	March 31, 2013	December 31, 2012
Principal amount of debt	13.8	13.8
Deferred financing costs (1)	(0.1)	(0.1)
Long-term debt, end of period	13.7	13.7

(1) The transaction costs in connection with the long-term debt are amortized over the remaining term of the long-term debt as financing expenses.

The Corporation remains in compliance with all financial covenants under its long-term debt agreement.

7 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:	Three months ended March 31, 2013		Year ended December 31, 2012	
	Shares	$	Shares	$
Balance, beginning of period	47,995,322	167.4	46,080,262	166.1
Issuance of shares	48,300	0.2	430,440	0.8
Normal course issuer bid	-	-	(285,380)	(1.0)
Vested restricted shares (note 8)	-	-	1,770,000	1.5
Common shares outstanding	48,043,622	167.6	47,995,322	167.4
Restricted shares outstanding (note 8)	1,790,000	1.1	1,810,000	1.1
Total common and restricted shares outstanding	49,833,622	168.7	49,805,322	168.5

Issuance of Shares
For the three months ended March 31, 2013, a total of 48,300 stock options were exercised (year ended December 31, 2012 – 430,440) for shares of the Corporation (see Note 8).

Normal Course Issuer Bid

On March 21, 2012, 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 Corporation could purchase up to 2,418,013 common shares for cancellation subject to a daily purchase limit of 6,248 common shares. The Bid commenced on March 23, 2012 and terminated on March 22, 2013. No shares have been acquired pursuant to the Bid in 2013. During the fiscal 2012 year, a total of 285,380 common shares were purchased and cancelled pursuant to the Bid.

Dividends

On May 17, 2012, the Corporation instituted a dividend policy and the first monthly dividend was paid on June 14, 2012. Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. During the three months ended March 31, 2013, the Corporation declared dividends of $1.6 million (2012 – nil), being $0.0325 per common share, of which $0.6 million was payable at the end of the period (December 31, 2012 - $0.5 million).

(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.

	2013		2012	
	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings per share	**48,032,322**	**$0.17**	**46,080,451**	**$0.23**
Adjustments for:				
Dilution effect of options and restricted shares	2,000,866	-	1,410,110	(0.01)
Weighted average number of common shares used in diluted earnings per share	**50,033,188**	**$0.17**	**47,490,561**	**$0.22**

8 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 key employees. A total of 4,983,362 options (being 10% of all outstanding shares) are available for grants. At March 31, 2013, a total of 1,536,650 options are outstanding and expire at various dates up to 2018, at amounts that range from $0.75 to $2.43 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 3.72 years and 435,900 options are currently vested and eligible to be exercised.

	Number of Options	Weighted Average Exercise Price $/Share
Total Outstanding January 1, 2012	**1,244,910**	**1.24**
Granted	748,000	1.54
Exercised	(430,440)	0.98
Forfeited	(343,300)	1.58
Expired	(14,370)	12.04
Total Outstanding December 31, 2012	**1,204,800**	**1.29**
Granted	390,000	2.20
Exercised	(48,300)	1.02
Forfeited	(9,150)	1.00
Expired	(700)	0.96
Total Outstanding March 31, 2013	**1,536,650**	**1.53**

	Options Outstanding			Exercisable Options	
Exercise Price Range	**Number of Options**	**Remaining Contractual Life (Years)**	**Weighted Average Exercise Price ($)**	**Number of Options**	**Weighted Average Exercise Price ($)**
$0.75 to $1.02	428,650	2.33	0.95	307,900	0.93
$1.03 to $1.35	350,000	3.75	1.27	128,000	1.27
$1.36 to $1.92	348,000	4.15	1.73	-	-
$1.93 to $2.43	410,000	4.79	2.20	-	-
Total Outstanding March 31, 2013	**1,536,650**	**3.72**	**1.53**	**435,900**	**1.03**

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 three months ended March 31, 2013 was $0.1 million (2012 - $0.2 million). The fair values of stock options granted in 2013 have been estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2013
Average fair value per option granted	$1.53
Average expected life (years)	3.1
Expected volatility (%)	66
Expected forfeiture rate (%)	23.4
Average risk-free interest rate (%)	1.27
Expected distribution yield (%)	5.62

Share Incentive Plan

On June 29, 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 238,444 common shares remain available for issue at March 31, 2013. These shares are issued in trust for the benefit of designated beneficiaries and vest to each designated beneficiary over a 3 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 over the 3 year vesting period and an equivalent share based compensation amount is recorded. 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 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.

In September 2010, the Corporation issued 7,100,000 shares under the EDSIP to a trustee for the benefit of designated directors and executive management. These incentive shares have a three year vesting period with 40% vesting on April 1, 2011, 30% on September 1, 2012 and 30% on September 1, 2013 and a share capital amount of $0.825 per share will be recorded as the related share-based compensation expense is recognized. In March 2011 a further 200,000 shares were granted under the EDSIP and have a three year vesting period with 40% vesting on December 31, 2011, 30% on December 31, 2012 and 30% on December 31, 2013 and a share capital amount of $1.05 per share will be recorded as the related share-based compensation expense is recognized. In July 2012, an additional 40,000 shares were granted under the EDSIP which have a three year vesting period with 40% vesting on June 8, 2013, 30% on June 8, 2014 and 30% on June 8, 2015 and a share capital amount of $1.60 per share will be recorded as the related share-based compensation expense is recognized. In February, 2013, 20,000 of the shares granted in 2012 were forfeited.

Restricted Common Shares Issued under the Share Incentive Plan:

	Three months ended March 31,2013	Year ended December 31, 2012
Balance, beginning of period	1,810,000	3,540,000
Grant of common shares	-	40,000
Vested common shares	-	(1,770,000)
Forfeitures	(20,000)	-
Balance, end of period	1,790,000	1,810,000

For the three months ended March 31, 2013, the Corporation incurred share based compensation expense of $0.1 million (2012 - $0.2 million) related to the EDSIP and an amount of up to $0.3 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 11.8 % has been assumed in the share based compensation expense assumptions.

9 Expenses

Oilfield services expenses by nature	2013	2012
Personnel costs and personnel related costs	14.3	13.3
Drilling rig and other rental costs	8.6	7.0
Material and supplies cost	4.1	3.1
Equipment operating and maintenance costs	2.6	2.0
Other	0.3	0.3
Total	**29.9**	**25.7**

General and administrative expenses by nature	2013	2012
Personnel costs and personnel related costs	1.3	1.4
Facility costs	0.3	0.3
Professional, legal and consulting fees	0.2	0.2
Leases	0.2	0.2
Other	0.3	0.1
Total	**2.3**	**2.2**

10 Supplemental Cash Flow Information

Changes in non-cash working capital is comprised of:

	2013	2012
Accounts receivable	(12.7)	(7.2)
Inventory and prepaid expenses	(0.1)	(0.8)
Accounts payable and accrued liabilities	3.5	3.4
Dividends payable	0.1	-
Income taxes receivable and payable	0.8	0.3
Total	**(8.4)**	**(4.3)**

11 Related Party Transactions

In April, 2011 High Arctic made loans to certain directors and officers of the Corporation in the total aggregate amount of $1.1 million. The purpose of the loans was to assist the directors and 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 8). The principal amount of each loan bears interest at an annual rate of 2%. Each loan is fully payable on the earlier of (i) thirty days after the date that a Borrower ceases to be an employee or director of the Corporation and (ii) April 15, 2014. As at March 31, 2013 and December 31, 2012, the amount outstanding related to these loans was $0.4 million.

12 Contingent Liabilities and Contingent Assets

Accounts Receivable

The Corporation has commenced litigation against a customer with respect to collection of a receivable for services rendered outside Canada. The Corporation believes it has made an adequate provision for the possibility of non-collectable amounts. The customer has made a number of allegations and initiated a counter claim of $5 million concerning performance issues and the cashing of the letter of credit in the amount of $1.0 million by the Corporation. The Corporation has not recorded an accrual in relation to the counter claim as management believes that the claim is without merit.

Inventory

The Corporation has been supplied with an inventory of spare parts with a value of US $5.5 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 inventory to the customer. The Corporation believes it currently has sufficient inventory on hand to meet that obligation and accordingly no provision has been made for any potential shortfall.

Other

The Corporation has posted a performance bond of approximately US$3.8 million in respect of a contract with a customer in the Middle East region, and would be liable if the bond was called as a result of a default by the Corporation in the performance of its obligations under the contract. The expiry date of the performance bond is March 30, 2014. Despite having not provided any services under that contract since 2008, on September 19, 2012, High Arctic received an extension request from the customer to extend the term to March 24, 2013 under an extension option within the contract. In late October 2012, the customer requested the services of a snubbing specialist and indicated a possible need for a snubbing unit as part of its efforts to deal with a well blowout. High Arctic challenged the validity of the extension on the basis that it was not delivered within the time limits prescribed by the contract and has taken the position the contract ended on August 31, 2012. The Corporation could be liable for contractual damages if the contract was breached and is at risk for a draw on all or a portion of the performance bond regardless of the merits. The Corporation is currently seeking the return of the performance bond on the basis the contract has now expired and has not received a response from the customer. No amount has been accrued for the possible contractual damages as management does not believe there has been any performance default.

13 Capital Disclosures

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

	March 31, 2013	December 31, 2012
Shareholders' equity	96.9	88.6
Total long-term debt, gross of financing costs	13.8	13.8
Cash and cash equivalents	(23.4)	(27.4)
Total Capitalization	87.3	75.0

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.

The Corporation's loan facilities are subject to four financial covenants, which are reported to the lender on a quarterly basis. These financial covenants are used by management to monitor capital and to assess the funds available to commit for capital expenditures, with the main focus on the Maximum Funded Debt to EBITDA and the Minimum Fixed Charge Coverage Ratios, which are measures defined under the loan agreement that have no prescribed meaning under IFRS. The Corporation remains in compliance with all financial covenants under its long-term debt agreement

14 Financial Instruments and Risk Management

Fair Value of Financial Assets and Liabilities

Accounts receivable and cash and cash equivalents are designated as loans and receivables and recorded at amortized cost, which approximates fair value due to the short-term nature of the instruments. Accounts payable and accrued liabilities, dividends payable and the long term debt are designated as other liabilities and are recorded at amortized cost.

Financial and Other Risks

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

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 three months ended March 31, 2013 a one percent change in interest rates on the loan facility would have amounted to a $0.1 million (2012 - $0.1 million) change in net earnings as a result of changes in interest.

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 operations are transacted in U.S. dollars through foreign subsidiaries and the Corporation does not engage in foreign currency hedging. For the three months ended March 31, 2013, a 1% nominal change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $0.3 million (2012 - $0.3 million) change in other comprehensive income as a result of changes in foreign exchange.

Commodity Price Risk

Commodity price risk is the risk that fluctuations in oil or natural gas prices could materially adversely affect the Corporation's financial condition. Commodity prices affect the levels of drilling activity, which affects certain segments of the Corporation's business, particularly with respect to natural gas. The Corporation mitigates this exposure with its diversification into international operations not dependent on the Canadian oil and gas industry.

Risk of Foreign Operations

The Corporation operates in international locations, including Papua New Guinea, which displays characteristics of an emerging market. Operations in these countries may be subject to a variety of risks including, but not limited to: currency fluctuations, devaluations and exchange controls; inflation; uncertain political and economic conditions resulting in unfavourable government actions such as unfavourable legislation or regulation, trade restrictions, unfavourable tax enforcement or adverse tax policies; the denial of contract rights; and social unrest, acts of terrorism or armed conflict. To attempt to mitigate these risks, the Corporation employs personnel with extensive experience in the international marketplace, supplemented with qualified local staff. Management is unable to predict the extent or duration of these risks or quantify their potential impact.

Income Tax Risk
The Corporation has risks for income tax matters, including the unanticipated tax and other expenses and liabilities of the Corporation due to changes in income tax laws.

The Corporation must file tax returns in the foreign jurisdictions in which it operates. The tax laws and the prevailing assessment practices are subject to interpretation and the foreign authorities may disagree with the filing positions adopted by the Corporation. The impact of any challenges cannot be reliably estimated and may be significant to the financial position or overall operations of the Corporation.

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 receivable are predominantly with customers who explore for and develop petroleum and natural gas 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 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 has two significant customers. Services are provided to the first significant customer in Papua New Guinea. That customer represents approximately 61% of the Corporation's revenue for three months ended March 31, 2013 (2012 – 51%) and 54% of its accounts receivable at that date (2012 – 40%). The second significant customer is a major Canadian exploration and production company which represents approximately 9% of the Corporation's revenue for the three months ended March 31, 2013 (2012 – 15%) and 3% of the Corporation's accounts receivable at that date (2012 – 11%). The services provided to the different economic and geographic territories reduce the risk of concentrating a significant portion of its revenue from a single customer. Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with either customer.

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, including interest, in their future fair value amounts:

March 31, 2013	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	18.4	-	-	-	18.4
Dividends payable	0.6	-	-	-	0.6
Long-term debt	0.6	13.9	-	-	14.5
Total	**19.6**	**13.9**	**-**	**-**	**33.5**

December 31, 2012	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	14.6	-	-	-	14.6
Dividends payable	0.5	-	-	-	0.5
Long-term debt	0.6	14.2	-	-	14.8
Total	**15.7**	**14.2**	**-**	**-**	**29.9**

15 Commitments

Lease Obligations

The Corporation has entered into long-term premise leases for operating facilities in Canada. These leases are operating leases and the length of the lease terms are up to three years. All the premise leases in Canada have renewal 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 five years as at March 31, 2013 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	0.6	0.3	-	-	0.9
Total lease commitments	**0.6**	**0.3**	**-**	**-**	**0.9**

Grande Prairie Building

In 2012, the Corporation signed a contract in the amount of $3.0 million to construct new premises in 2013 for its Grande Prairie offices and facilities. Additional ancillary costs of approximately $0.8 million are anticipated to be incurred in 2013 to complete the premises.

16 Operating Segments

The Corporation operates one business of providing oilfield services to customers. This business has the following geographic characteristics for the three months ended March 31:

	2013	2012
Revenue		
Papua New Guinea	29.9	23.5
Canada	14.9	18.7
Total	44.8	42.2
Oilfield services expense	29.9	25.7
Oilfield services margin	**14.9**	**16.5**
General and administration	2.3	2.2
Share-based compensation	0.2	0.4
Amortization	2.6	2.3
Foreign exchange loss (gain)	-	(0.1)
Operating earnings	**9.8**	**11.7**

	As at March 31, 2013	As at December 31, 2012
Current assets		
Canada	35.7	28.4
Papua New Guinea	25.0	23.8
	60.7	**52.2**
Non-current assets		
Canada	38.3	36.7
Papua New Guinea	32.4	30.0
	70.7	**66.7**
Total assets	**131.4**	**118.9**
Current liabilities		
Canada	5.5	4.4
Papua New Guinea	14.3	11.2
	19.8	**15.6**
Non-current liabilities		
Canada	13.7	13.7
Papua New Guinea	1.0	1.0
	14.7	**14.7**
Total liabilities	**34.5**	**30.3**

Included in the current assets attributed to Canada as at March 31, 2013 is $10.1 million (December 31, 2012 - $8.9 million) held in a bank account in Singapore.