

# **HIGH ARCTIC ENERGY SERVICES INC.**



## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTH PERIODS ENDED  
SEPTEMBER 30, 2014**

# High Arctic Energy Services Inc.

## Consolidated Statements of Financial Position

As at September 30, 2014 and December 31, 2013

Unaudited – Canadian \$ Millions

	Notes	September 30, 2014	December 31, 2013
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		46.0	33.7
Accounts receivable	6	15.9	21.9
Inventories		4.7	3.7
Prepaid expenses and deposits		1.1	0.7
		<u>67.7</u>	<u>60.0</u>
<b>Non-current assets</b>			
Property and equipment	7	105.9	72.1
Deferred tax asset		5.0	5.0
Loans due from related parties	14	0.2	-
		<u>108.1</u>	<u>82.1</u>
<b>Total assets</b>		<b><u>178.8</u></b>	<b><u>137.1</u></b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		18.7	15.5
Income taxes payable		3.4	2.0
Dividend payable	8	0.8	0.6
		<u>22.9</u>	<u>18.1</u>
<b>Non-current liabilities</b>			
Long-term debt	9	-	6.7
Deferred income tax liability		0.6	0.5
		<u>0.6</u>	<u>7.2</u>
<b>Total liabilities</b>		<b><u>23.5</u></b>	<b><u>25.3</u></b>
<b>Shareholders' equity</b>	10	<b><u>155.3</u></b>	<b><u>111.8</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>178.8</u></b>	<b><u>137.1</u></b>
Commitments and contingencies	18, 15		

See accompanying notes to these interim consolidated financial statements.

Approved on behalf of the Corporation by:

(signed) "Michael Binnion" Director

(signed) "Tom Alford" Director

# High Arctic Energy Services Inc.

## Consolidated Statements of Earnings and Comprehensive Income

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Millions, except per share amounts

	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2014	2013	2014	2013
<b>Revenue</b>	19	41.3	36.3	125.6	114.0
<b>Expenses</b>					
Oilfield services	12	28.4	24.2	80.8	77.7
General and administration	12	3.1	2.3	8.8	7.3
Amortization	7	3.2	3.0	9.4	8.4
Share-based compensation	11	0.4	0.1	1.0	0.4
(Gain) loss on sale of assets		(0.2)	0.3	(0.2)	0.3
Excess of insurance proceeds over costs	7	-	(2.7)	-	(2.7)
		34.9	27.2	99.8	91.4
<b>Operating earnings for the period</b>		<b>6.4</b>	<b>9.1</b>	<b>25.8</b>	<b>22.6</b>
Foreign exchange gain (loss)		(1.3)	0.3	(1.2)	0.1
Interest and finance expense		(0.1)	(0.2)	(0.4)	(0.6)
<b>Net earnings before income taxes</b>		<b>5.0</b>	<b>9.2</b>	<b>24.2</b>	<b>22.1</b>
Current income tax expense		(1.3)	(1.7)	(4.5)	(4.0)
Deferred income tax recovery		-	0.2	-	0.1
<b>Net earnings for the period</b>		<b>3.7</b>	<b>7.7</b>	<b>19.7</b>	<b>18.2</b>
<b>Earnings per share:</b>	10				
Basic		<b>0.07</b>	<b>0.16</b>	<b>0.39</b>	<b>0.38</b>
Diluted		<b>0.07</b>	<b>0.16</b>	<b>0.39</b>	<b>0.37</b>

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
<b>Net earnings for the period</b>	<b>3.7</b>	<b>7.7</b>	<b>19.7</b>	<b>18.2</b>
<b>Other comprehensive income: Items that may be reclassified subsequently to net income:</b>				
Foreign currency translation gains (losses) for foreign operations, net of tax	4.9	(1.6)	4.9	2.1
<b>Comprehensive income for the period</b>	<b>8.6</b>	<b>6.1</b>	<b>24.6</b>	<b>20.3</b>

See accompanying notes to these interim consolidated financial statements.

# High Arctic Energy Services Inc.

## Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained deficit	Total equity
<b>Balance at January 1, 2014</b>		169.1	7.7	2.4	(67.4)	111.8
Net earnings		-	-	-	19.7	19.7
Dividends	8	-	-	-	(6.7)	(6.7)
Other comprehensive income				4.9	-	4.9
Issuance of common shares (net of costs)		23.6		-	-	23.6
Share-based payment transactions		1.6	0.4	-	-	2.0
<b>Balance at September 30, 2014</b>		<b>194.3</b>	<b>8.1</b>	<b>7.3</b>	<b>(54.4)</b>	<b>155.3</b>

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained deficit	Total equity
<b>Balance at January 1, 2013</b>		168.5	7.3	(2.4)	(84.8)	88.6
Net earnings		-	-	-	18.2	18.2
Dividends	8	-	-	-	(5.3)	(5.3)
Other comprehensive income		-	-	2.1	-	2.1
Normal course issuer bid	10	(0.2)	0.1	-	-	(0.1)
Share-based payment transactions		0.4	0.1	-	-	0.5
<b>Balance at September 30, 2013</b>		<b>168.7</b>	<b>7.5</b>	<b>(0.3)</b>	<b>(71.9)</b>	<b>104.0</b>

See accompanying notes to these interim consolidated financial statements

# High Arctic Energy Services Inc.

## Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million

	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2014	2013	2014	2013
<b>Operating activities</b>					
Net earnings for the period		3.7	7.7	19.7	18.2
Adjustments for:					
Amortization	7	3.2	3.0	9.4	8.4
Share-based compensation	11	0.4	0.1	1.0	0.4
(Gain) loss on sale of property and equipment		(0.2)	0.3	(0.2)	0.3
Excess of insurance proceeds over costs	7	-	(2.7)	-	(2.7)
Foreign exchange loss		0.5	-	0.6	-
Deferred income tax recovery		-	(0.2)	-	(0.1)
		7.6	8.2	30.5	24.5
Net changes in items of working capital	13	3.3	0.6	9.2	2.4
<b>Net cash generated from operating activities</b>		<b>10.9</b>	<b>8.8</b>	<b>39.7</b>	<b>26.9</b>
<b>Investing activities</b>					
Additions of property and equipment	7	(36.8)	(6.9)	(41.0)	(17.7)
Insurance proceeds	7	-	2.8	-	3.2
Disposal of property and equipment	7	0.3	-	0.5	0.4
Net changes in items of working capital	13	6.5	-	-	-
<b>Net cash used in investing activities</b>		<b>(30.0)</b>	<b>(4.1)</b>	<b>(40.5)</b>	<b>(14.1)</b>
<b>Financing activities</b>					
Dividend payments	8	(2.4)	(1.9)	(6.5)	(5.2)
Issuance of common shares, net of costs	10	24.2	-	24.6	0.1
Purchase of common shares for cancellation	10	-	-	-	(0.2)
Loan receivable	14	-	0.1	-	0.1
Repayment of long-term debt		(6.7)	(4.0)	(6.7)	(7.0)
Net changes in items of working capital	13	0.8	-	-	-
<b>Net cash provided by (used in) financing activities</b>		<b>15.9</b>	<b>(5.8)</b>	<b>11.4</b>	<b>(12.2)</b>
<b>Effect of exchange rate changes</b>		<b>2.0</b>	<b>(0.6)</b>	<b>1.7</b>	<b>0.7</b>
<b>Net change in cash and cash equivalents</b>		<b>(1.2)</b>	<b>(1.7)</b>	<b>12.3</b>	<b>1.3</b>
<b>Cash and cash equivalents – Beginning of period</b>		<b>47.2</b>	<b>30.4</b>	<b>33.7</b>	<b>27.4</b>
<b>Cash and cash equivalents – End of period</b>		<b>46.0</b>	<b>28.7</b>	<b>46.0</b>	<b>28.7</b>
<b>Cash paid for:</b>					
Interest		0.1	0.2	0.4	0.4
Income taxes		0.7	0.7	3.1	1.7

See accompanying notes to the consolidated interim financial statements

# High Arctic Energy Services Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million (except per share data)

---

### 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 444 – 5<sup>th</sup> Avenue S.W. Suite 2010, Calgary, Alberta, Canada, T2P 2T8. High Arctic's principal focus is to provide contract drilling, completion services, equipment rental and other oilfield services to the oil and gas industry in Canada and Papua New Guinea.

As of September 30, 2014, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L. representing 39.3% of the outstanding common shares.

### 2 Basis of Preparation

These condensed interim consolidated financial statements (the "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"). These 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, 2013, except for 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, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

The Financial Statements of High Arctic for the three and nine months ended September 30, 2014 were approved by the Board of Directors on November 12, 2014 after review by the Corporation's Audit Committee.

### 3 Changes in Accounting Policies

There are no IFRS or IFRIC interpretations that were effective for the first time for the fiscal year beginning on or after January 1, 2014 that had a material impact on the Corporation.

In May 2013, the IASB released an amendment to IAS 36, Impairment of Assets. This amendment requires entities to disclose how the recoverable amount of a cash generating unit has been measured when an impairment loss has been recognized or reversed. The amendment was effective January 1, 2014 and had no material effect on the Corporation's Financial Statements.

IFRIC 21, Levies, was developed by the IFRS Interpretations Committee ("IFRIC") and issued in May 2013. IFRIC 21 clarifies that an entity should recognize a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. IFRIC 21 was required to be adopted retrospectively for fiscal years beginning January 1, 2014 and its adoption has not had a material impact on accounting for property and other similar taxes, which do not meet the definition of an income tax in IAS 12, Income Taxes.

### 4 Future Accounting Policies

#### Financial Instruments

On July 24, 2014, the IASB issued IFRS 9, "*Financial Instruments*" ("IFRS 9") to replace International Accounting Standard 39, "*Financial Instruments: Recognition and Measurement*." IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Corporation is currently evaluating the impact of adopting IFRS 9 on the Financial Statements.

# High Arctic Energy Services Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million (except per share data)

### 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, 2017, 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.

## 5 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.

## 6 Accounts Receivable

The aging of accounts receivable is as follows. The allowance for doubtful accounts provision is based on an individual account by account analysis and the customer's prior credit history. The Corporation's normal credit terms are net 30 days.

	September 30, 2014	December 31, 2013
Less than 31 days	15.3	21.0
31 to 60 days	1.0	0.6
61 to 90 days	0.1	0.6
Greater than 90 days	0.1	0.3
Allowance for doubtful accounts	(0.6)	(0.6)
<b>Total</b>	<b>15.9</b>	<b>21.9</b>
The Corporation's accounts receivable are denominated in the following currencies:		
Canadian dollar	6.0	7.4
United States dollar (2014 – US\$8.8; 2013 – US\$13.7)	9.9	14.5
<b>Total</b>	<b>15.9</b>	<b>21.9</b>

# High Arctic Energy Services Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million (except per share data)

### 7 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, 2013 and the nine months ended September 30, 2014.

<b>Cost:</b>	<b>Light vehicles</b>	<b>Heavy trucks</b>	<b>Oilfield equipment</b>	<b>Computer hardware and office equipment</b>	<b>Building</b>	<b>Land</b>	<b>Work-in-progress</b>	<b>Total</b>
<b>Balance January 1, 2013</b>	<b>2.7</b>	<b>13.1</b>	<b>118.9</b>	<b>3.0</b>		<b>1.2</b>	<b>7.4</b>	<b>146.3</b>
Additions	0.2	0.1	-	0.1		-	21.5	21.9
Disposals	(0.3)	(0.2)	(5.5)	(0.1)		-	-	(6.1)
Transfers	(0.6)	(0.6)	23.7	(0.2)		-	(22.3)	-
Effect of foreign exchange	-	-	3.6	-		-	-	3.6
<b>Balance December 31, 2013</b>	<b>2.0</b>	<b>12.4</b>	<b>140.7</b>	<b>2.8</b>	<b>-</b>	<b>1.2</b>	<b>6.6</b>	<b>165.7</b>
Additions	-	-	-	0.1	-	-	40.9	41.0
Disposals	(0.7)	-	(0.3)	-	-	-	-	(1.0)
Transfers	0.2	-	5.4	0.3	3.9	-	(9.8)	-
Effect of foreign exchange	-	-	3.2	-	-	-	0.8	4.0
<b>Balance September 30, 2014</b>	<b>1.5</b>	<b>12.4</b>	<b>149.0</b>	<b>3.2</b>	<b>3.9</b>	<b>1.2</b>	<b>38.5</b>	<b>209.7</b>

<b>Accumulated amortization and impairments:</b>	<b>Light vehicles</b>	<b>Heavy trucks</b>	<b>Oilfield equipment</b>	<b>Computer hardware and office equipment</b>	<b>Building</b>	<b>Land</b>	<b>Work-in-progress</b>	<b>Total</b>
<b>Balance, January 1, 2013</b>	<b>1.3</b>	<b>9.0</b>	<b>72.6</b>	<b>2.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85.0</b>
Amortization for the year	0.4	0.6	10.9	0.4	-	-	-	12.3
Disposals	(0.2)	(0.1)	(4.7)	(0.1)	-	-	-	(5.1)
Transfers	(0.5)	(0.4)	1.1	(0.2)	-	-	-	-
Effect of foreign exchange	-	-	1.4	-	-	-	-	1.4
<b>Balance, December 31, 2013</b>	<b>1.0</b>	<b>9.1</b>	<b>81.3</b>	<b>2.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>93.6</b>
Amortization for the period	0.2	0.3	8.5	0.3	0.1	-	-	9.4
Disposals	(0.5)	-	(0.2)	-	-	-	-	(0.7)
Effect of foreign exchange	-	-	1.5	-	-	-	-	1.5
<b>Balance, September 30, 2014</b>	<b>0.7</b>	<b>9.4</b>	<b>91.1</b>	<b>2.5</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>103.8</b>

#### Carrying amounts of property and equipment:

<b>At December 31, 2013</b>	<b>1.0</b>	<b>3.3</b>	<b>59.4</b>	<b>0.6</b>	<b>-</b>	<b>1.2</b>	<b>6.6</b>	<b>72.1</b>
<b>At September 30, 2014</b>	<b>0.8</b>	<b>3.0</b>	<b>57.9</b>	<b>0.7</b>	<b>3.8</b>	<b>1.2</b>	<b>38.5</b>	<b>105.9</b>

#### Work-In-Progress

On July 28, 2014 the Corporation completed the acquisition of two heli-portable drilling rigs and ancillary equipment. The Corporation applied judgment to account for the acquisition as an asset acquisition, rather than a business combination. The rigs have been packaged and shipped from Brazil to Houston where one rig is currently being upgraded to ensure it meets the drilling standards required for its use in PNG and special



# High Arctic Energy Services Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million (except per share data)

---

adaptations requested by our customer under contract. The cost of each rig will remain in work-in-progress until it is shipped to PNG.

### **Excess of Insurance Proceeds over Costs**

During the nine months ended September 30, 2013, the Corporation incurred damage to certain pieces of equipment which was covered by its insurance provider. The total proceeds received under the insurance policy were \$3.2 million and the net book value of the property damaged was \$0.5 million. The resulting excess of insurance proceeds over costs and net book value of \$2.7 million was recognized in the determination of net earnings.

## **8 Dividend Payable**

Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. During the nine months ended September 30, 2014, the Corporation declared dividends of \$6.7 million (2013 - \$5.3 million), of which \$0.8 million was payable as of September 30, 2014 (December 31, 2013 - \$0.6 million). Since September 30, 2014, a monthly dividend of \$0.015 per share has been declared for a total of \$0.8 million.

## **9 Long-Term Debt**

As at September 30, 2014, the main components of the Corporation's available credit facilities are a \$40 million (December 31, 2013 - \$30 million) revolving loan and a \$5 million revolving operating loan. The maturity date of amounts outstanding under both main components of the credit facilities is August 31, 2016 and no principal payments are required prior to that date. Outstanding long-term debt is secured by all of the assets of the Canadian parent and by guarantees given by its material foreign subsidiaries. In August, 2014 the Corporation paid the outstanding balance of the long-term debt of \$6.7 million.

The available amount under the \$40 million revolving loan facility is limited to 65% of the net book value of the Canadian fixed assets plus 65% of the net book value of fixed assets in High Arctic Energy Services (Singapore) Pte. Ltd. limited to export guarantees provided by Export Development Canada ("EDC"), less priority claims. The amount available to draw under the \$5 million revolving operating loan is limited to 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement. At September 30, 2014, no guarantee had been executed with EDC and the total credit available to draw under the facility was approximately \$28.0 million.

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. An annual standby fee of 0.35% is charged on any undrawn portion of the facilities. The effective interest rate on the long-term debt was 4% for the three and nine months ended September 30, 2014 and for the year ended December 31, 2013.

# High Arctic Energy Services Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million (except per share data)

### 10 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:	Nine months ended September 30, 2014		Year ended December 31, 2013	
	Shares	\$	Shares	\$
Common shares:				
Balance, beginning of period	50,013,592	169.0	47,995,322	167.4
Public share offering, net of issuance costs	5,051,000	23.6		
Issuance of shares upon exercise of options (note 11)	562,060	1.5	345,740	1.0
Normal course issuer bid	-	-	(105,470)	(0.4)
Vested restricted shares (note 11)	14,000	-	1,778,000	1.0
Common shares outstanding	55,640,652	194.1	50,013,592	169.0
Restricted shares outstanding (note 11)	123,000	0.2	32,000	0.1
Total common and restricted shares outstanding	55,763,652	194.3	50,045,592	169.1

#### Issuance of Shares

On June 11, 2014, the Corporation completed a public offering of 5,051,000 subscription receipts (the "Subscription Receipts") at a price of \$4.95 per Subscription Receipt. Each Subscription Receipt represented the right to acquire, without payment of additional consideration or further action, one common share of the Corporation upon closing of the acquisition of two heli-portable drilling rigs and associated ancillary equipment (the "Acquisition").

The gross proceeds of \$25.0 million from the sale of the Subscription Receipts were placed in escrow ("Escrowed Proceeds") pending closing of the Acquisition. On July 28, 2014, the Acquisition was completed and 5,051,000 common shares were issued in exchange for the Subscription Receipts and the Escrowed Proceeds were released to the Corporation. Issuance costs of \$1.4 million were incurred pursuant to the public offering.

During the nine months ended September 30, 2014, a total of 562,060 stock options were exercised (year ended December 31, 2013 – 345,740) for shares of the Corporation (see Note 11).

#### Normal Course Issuer Bid

On May 13, 2013, 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 May 28, 2013 and terminated on May 27, 2014. During the year ended December 31, 2013, 105,470 common shares were purchased and cancelled pursuant to the Bid. No common shares were purchased pursuant to the Bid in 2014.

# High Arctic Energy Services Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million (except per share data)

### (b) Per Share Amounts

The following table summarizes the weighted average number of common shares used in calculating basic and diluted earnings per share for the three and nine months ended September 30, 2014 and 2013. All potentially dilutive instruments such as options and the restricted shares issued under the Executive and Director Share Incentive Plan are considered.

	Nine months ended September 30, 2014		Nine months ended September 30, 2013	
	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings per share	<b>50,200,636</b>	<b>\$0.39</b>	<b>48,223,829</b>	<b>\$0.38</b>
<b>Adjustments for:</b>				
Dilution effect of options and restricted shares	188,832	-	356,622	(0.01)
Weighted average number of common shares used in diluted earnings per share	<b>50,389,468</b>	<b>\$0.39</b>	<b>48,580,451</b>	<b>\$0.37</b>
	Three months ended September 30, 2014		Three months ended September 30, 2013	
	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings per share	<b>54,037,625</b>	<b>\$0.07</b>	<b>48,594,425</b>	<b>\$0.16</b>
<b>Adjustments for:</b>				
Dilution effect of options and restricted shares	408,352	-	408,232	-
Weighted average number of common shares used in basic earnings per share	<b>54,445,977</b>	<b>\$0.07</b>	<b>49,002,657</b>	<b>\$0.16</b>

## 11 Share-based Compensation

### a) 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 5,576,365 options (being 10% of all outstanding shares) are available for grants. At September 30, 2014, a total of 2,779,100 options are outstanding and expire at various dates up to 2019, at exercise prices that range from \$1.00 to \$5.40 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. 25,000 of the options granted in 2014 vested immediately. The options have an average remaining contractual life of 4.0 years and 510,300 options were vested and eligible to be exercised as of September 30, 2014.

# High Arctic Energy Services Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million (except per share data)

	Number of Options	Weighted Average Exercise Price \$/Share
<b>Total Outstanding January 1, 2013</b>	<b>1,204,800</b>	<b>1.29</b>
Granted	1,615,000	2.80
Exercised	(345,740)	1.15
Forfeited	(17,700)	1.18
Expired	(700)	0.96
<b>Total Outstanding December 31, 2013</b>	<b>2,455,660</b>	<b>2.30</b>
Granted	1,216,000	5.23
Exercised	(562,060)	1.85
Forfeited	(306,000)	2.88
Expired	(24,500)	0.79
<b>Total Outstanding September 30, 2014</b>	<b>2,779,100</b>	<b>3.62</b>

The options exercised in 2014 had a weighted average market price of \$5.28 (year ended December 31, 2013 - \$2.91) per share on the date of exercise.

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	466,100	2.35	1.46	231,300	1.39
\$2.12 to \$2.83	763,000	3.73	2.52	254,000	2.50
\$3.39 to \$3.55	365,000	4.19	3.40	25,000	3.55
\$5.10 to \$5.40	1,185,000	4.82	5.26	-	-
<b>Total Outstanding September 30, 2014</b>	<b>2,779,100</b>	<b>4.02</b>	<b>3.62</b>	<b>510,300</b>	<b>2.05</b>

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 nine months ended September 30, 2014 was \$0.9 million (2013 - \$0.3 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	2014	2013
Average fair value per option granted	1.51	1.19
Average expected life (years)	3.0	3.1
Expected volatility (%)	48	63
Expected forfeiture rate (%)	21	28
Average risk-free interest rate (%)	1.08	1.12
Expected dividend yield (%)	3.4	5.6

# High Arctic Energy Services Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million (except per share data)

### b) 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 113,444 common shares remain available for issue at September 30, 2014. 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 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.

In August 2014, 105,000 shares were granted under the EDSIP which have a three year vesting period with 34% vesting on August 18, 2015, 33% on August 18, 2016 and 33% on August 18, 2017. Share-based compensation of \$5.29 per share will be recognized over the vesting period and a share capital amount of \$5.29 per share will be recorded as the related share-based compensation expense is recognized.

#### Restricted Common Shares Issued under the Share Incentive Plan:

	Nine months ended September 30, 2014	Year ended December 31, 2013
Balance, beginning of period	32,000	1,810,000
Grant of common shares	105,000	20,000
Vested common shares	(14,000)	(1,778,000)
Forfeitures	-	(20,000)
Balance, end of period	123,000	32,000

For the nine months ended September 30, 2014, the Corporation incurred share based compensation expense of \$0.1 million (2013- \$0.1 million) related to the EDSIP and an amount of up to \$0.5 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.

### c) Restricted Shares Units

On September 1, 2014 the Corporation awarded 40,000 Restricted Share Units ("RSUs") to one officer 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 vest equally over a three year period and will be settled in cash when exercised by the holder no earlier than two years after the vesting date. The RSUs must be exercised within six years of the date of grant.

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. The fair value is determined using the Black-Scholes option pricing model.

# High Arctic Energy Services Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million (except per share data)

As at September 30, 2014, an amount of \$0.2 million (before recognizing a reduction for any future forfeitures) remains to be amortized in future periods in respect of the 40,000 RSUs awarded. On October 31, 2014, an additional 40,000 RSUs were granted to another officer.

## 12 Expenses

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<b>Oilfield services expenses by nature:</b>				
Personnel costs and personnel related costs	11.3	10.1	33.2	34.2
Drilling rig and other rental costs	9.7	7.1	27.6	23.5
Material and supplies cost	5.0	4.6	12.8	12.5
Equipment operating and maintenance costs	2.1	2.1	6.5	6.6
Other	0.3	0.3	0.7	0.9
<b>Total</b>	<b>28.4</b>	<b>24.2</b>	<b>80.8</b>	<b>77.7</b>
<b>General and administrative expenses by nature:</b>				
Personnel costs and personnel related costs	1.5	1.6	5.5	5.0
Facility costs	0.5	0.3	1.0	0.8
Professional, legal and consulting fees	0.1	0.1	0.7	0.5
Leases	0.1	0.1	0.4	0.4
Other	0.9	0.2	1.2	0.6
<b>Total</b>	<b>3.1</b>	<b>2.3</b>	<b>8.8</b>	<b>7.3</b>

## 13 Supplemental Cash Flow Information

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Accounts receivable	1.2	(1.1)	6.7	0.8
Inventories	(0.6)	0.6	(0.9)	-
Prepaid expenses and deposits	7.6		(0.4)	-
Accounts payable and accrued liabilities	1.9	0.3	2.5	(0.6)
Income taxes payable	0.5	0.8	1.3	2.2
<b>Total changes in non-cash working capital</b>	<b>10.6</b>	<b>0.6</b>	<b>9.2</b>	<b>2.4</b>
<b>Related to:</b>				
<b>Operating activities</b>	<b>3.3</b>	<b>0.6</b>	<b>9.2</b>	<b>2.4</b>
<b>Investing activities</b>	<b>6.5</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financing activities</b>	<b>0.8</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>10.6</b>	<b>0.6</b>	<b>9.2</b>	<b>2.4</b>

# High Arctic Energy Services Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million (except per share data)

### 14 Related Party Transactions

#### Loans

In August, 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 11). 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 of the Corporation and (ii) August 15, 2017. As at September 30, 2014, the amount outstanding related to these loans was \$0.2 million.

#### Office Lease

Effective July 1, 2014 the Corporation entered into a six month rental agreement with an officer of the Corporation for temporary office space at \$2,000 per month.

### 15 Contingent Liabilities

#### Inventory

The Corporation has been supplied 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 is party to legal actions arising in the normal course of business. The Corporation believes that the ultimate liability arising from these matters will have no material effect on the Financial Statements.

### 16 Capital Disclosures

The Corporation's capital structure is comprised of shareholders' equity, described in Note 10, and the long term debt described in Note 9 less cash and cash equivalents.

	September 30, 2014	December 31, 2013
Shareholders' equity	155.3	111.8
Long-term debt	-	6.7
Cash and cash equivalents	(46.0)	(33.7)
<b>Total Capitalization</b>	<b>109.3</b>	<b>84.8</b>

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. The main focus is 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 remained in compliance with all financial covenants under its credit facility agreement throughout the nine months ended September 30, 2014.

# High Arctic Energy Services Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million (except per share data)

---

### 17 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 and long term debt (note 9) are designated as other liabilities and are recorded at amortized cost.

#### **Fair value of financial instruments**

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, deposits, loans due from related parties, accounts payable and accrued liabilities, dividends payable and long-term debt. The fair value of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities and dividends payable approximate their carrying amounts due to their short terms to maturity.

#### **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. As at September 30, 2014, no long term debt amounts were outstanding (note 9).

#### **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 nine months ended September 30, 2014, a 1% nominal change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a \$0.9 million (2013 - \$0.6 million) change in other comprehensive income and a \$0.2 million (2013 - \$0.2 million) change in net earnings for the period 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. The commodity prices affect the levels of drilling activity of the Corporation's customers, 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.



# High Arctic Energy Services Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million (except per share data)

### 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, deposits, loans due from related parties 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 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 provides services to two significant customers in Papua New Guinea. One customer represents approximately 33% of the Corporation's revenue for the nine months ended September 30, 2014 (2013 – 67%) and 31% of its accounts receivable at that date (2013 – 56%). The second customer represents approximately 29% of the Corporation's revenue for the nine months ended September 30, 2014 (2013 – nil) and 8% of its accounts receivable at that date (2013 – nil). A third significant customer is a major Canadian exploration and production company which represents approximately 8% of the Corporation's revenue for the nine months ended September 30, 2014 (2013 – 10%) and 7% of the Corporation's accounts receivable at that date (2013 – 6%). Management has assessed the three customers as creditworthy and the Corporation has had no history of collection issues with these customers.

### 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 undiscounted contractual maturities of the Corporation's financial liabilities:

<b>September 30, 2014</b>	<b>1 Year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>Beyond 5 Years</b>	<b>Total</b>
Accounts payable	18.7	-	-	-	18.7
Dividends payable	0.8	-	-	-	0.8
<b>Total</b>	<b>19.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19.5</b>

  

<b>December 31, 2013</b>	<b>1 Year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>Beyond 5 Years</b>	<b>Total</b>
Accounts payable	15.5	-	-	-	15.5
Dividends payable	0.6	-	-	-	0.6
Long-term debt	0.3	6.9	-	-	7.2
<b>Total</b>	<b>16.4</b>	<b>6.9</b>	<b>-</b>	<b>-</b>	<b>23.3</b>

# High Arctic Energy Services Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

Unaudited - Canadian \$ Million (except per share data)

### 18 Commitments

#### 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 five years. All the premise leases 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 September 30, 2014 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	0.5	0.4	0.4	-	1.3
<b>Total lease commitments</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>-</b>	<b>1.3</b>

### 19 Operating Segments

The Corporation determines its operating segments based on internal information reviewed by management to allocate resources and assess performance. The Corporation operates in two geographic areas within one operating segment which provides oilfield services to customers in Canada and Papua New Guinea. The amounts related to each geographic area are as follows:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<b>Revenue</b>				
Papua New Guinea	31.4	27.7	92.7	85.9
Canada	9.9	8.6	32.9	28.1
<b>Total</b>	<b>41.3</b>	<b>36.3</b>	<b>125.6</b>	<b>114.0</b>

Revenues are attributed to geographical areas based on the location in which the services are rendered.

	September 30, 2014	December 31, 2013
<b>Current assets</b>		
Canada	35.7	33.4
Papua New Guinea	32.0	26.6
	<b>67.7</b>	<b>60.0</b>
<b>Non-current assets</b>		
Canada	41.6	41.8
Papua New Guinea	69.5	35.3
	<b>111.1</b>	<b>77.1</b>
<b>Total assets</b>	<b>178.8</b>	<b>137.1</b>
<b>Liabilities</b>		
Canada	5.0	12.1
Papua New Guinea	18.5	13.2
<b>Total liabilities</b>	<b>23.5</b>	<b>25.3</b>

Included in the current assets attributed to Canada as at September 30, 2014 is \$9.4 million (December 31, 2013 - \$21.1 million) held in a bank account in Singapore. The segment presentation of non-current assets is based on the geographic location of the assets except for certain drilling rigs currently in work-in-progress that are undergoing refurbishment in Houston for use in 2015 in Papua New Guinea .