

HIGH ARCTIC ENERGY SERVICES INC.



CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014



March 11, 2015

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, 2014 and December 31, 2013 and the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, 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, 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

High Arctic Energy Services Inc.
Consolidated Statements of Financial Position
As at December 31, 2014 and 2013
(Canadian \$ Million)

	Notes	2014	2013
Assets			
Current assets			
Cash and cash equivalents		37.2	33.7
Accounts receivable	7	20.6	21.9
Inventories		5.0	3.7
Prepaid expenses		0.8	0.7
		<u>63.6</u>	<u>60.0</u>
Non-current assets			
Property and equipment	8	119.9	72.1
Deferred tax asset	14	5.0	5.0
Loans due from related parties	19	0.2	-
		<u>125.1</u>	<u>82.1</u>
Total assets		<u>188.7</u>	<u>137.1</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	17.6	15.5
Income taxes payable		3.5	2.0
Dividend payable	10	0.9	0.6
		<u>22.0</u>	<u>18.1</u>
Non-current liabilities			
Deferred revenue		0.4	-
Long-term debt	11	-	6.7
Deferred tax liability	14	0.7	0.5
		<u>1.1</u>	<u>7.2</u>
Total liabilities		<u>23.1</u>	<u>25.3</u>
Shareholders' equity	12	<u>165.6</u>	<u>111.8</u>
Total liabilities and shareholders' equity		<u>188.7</u>	<u>137.1</u>
Commitments and contingencies	23, 20		

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Corporation by:

(signed) "Tom Alford" Director

(signed) "Michael Binnion" Director

High Arctic Energy Services Inc.

Consolidated Statements of Earnings and Comprehensive Income

For the years ended December 31, 2014 and 2013

(Canadian \$ Million, except per share amounts)

		2014	2013
	Notes		
Revenue	24	171.8	152.7
Expenses			
Oilfield services	15	110.6	101.4
General and administration	15	11.9	9.8
Amortization	8	12.8	12.3
Share-based compensation	13	1.4	0.8
(Gain) loss on sale of property and equipment		(0.2)	0.3
Excess of insurance proceeds over cost	8	-	(2.7)
		136.5	121.9
Operating earnings		35.3	30.8
Foreign exchange loss		0.9	0.4
Interest and finance expense		0.4	0.8
Net earnings before income taxes		34.0	29.6
Current income tax expense	14	5.6	5.5
Deferred income tax expense (recovery)	14	0.2	(0.5)
Net earnings for the year		28.2	24.6
Earnings per share:	12		
Basic		0.54	0.51
Diluted		0.53	0.50
		2014	2013
Net earnings for the year		28.2	24.6
Other comprehensive income:			
Items that may be reclassified subsequently to net income:			
Foreign currency translation gains for foreign operations, net of tax		9.0	4.8
Comprehensive income for the year		37.2	29.4

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, 2014 and 2013
(Canadian \$ Million)

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained deficit	Total equity
Balance at January 1, 2014		169.1	7.7	2.4	(67.4)	111.8
Net earnings		-	-	-	28.2	28.2
Dividends	10	-	-	-	(9.4)	(9.4)
Other comprehensive income - foreign currency translation gain		-	-	9.0	-	9.0
Issuance of common shares (net of costs)	12	23.6	-	-	-	23.6
Share-based payment transactions		1.6	0.8	-	-	2.4
Balance at December 31, 2014		194.3	8.5	11.4	(48.6)	165.6

	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		-	-	-	24.6	24.6
Dividends	10	-	-	-	(7.2)	(7.2)
Other comprehensive income - foreign currency translation gain		-	-	4.8	-	4.8
Normal course issuer bid	12	(0.4)	0.1	-	-	(0.3)
Share-based payment transactions		1.0	0.3	-	-	1.3
Balance at December 31, 2013		169.1	7.7	2.4	(67.4)	111.8

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013

(Canadian \$ Million)

	Notes	2014	2013
Net earnings for the year		28.2	24.6
Adjustments for:			
Deferred revenue		0.4	-
Amortization	8	12.8	12.3
Share-based compensation	13	1.4	0.8
(Gain) loss on sale of property and equipment		(0.2)	0.3
Excess of insurance proceeds over costs	8	-	(2.7)
Foreign exchange loss		0.5	0.5
Deferred income tax expense (recovery)	14	0.2	(0.5)
		<u>43.3</u>	<u>35.3</u>
Net changes in items of working capital	18	0.5	1.5
Net cash generated from operating activities		<u>43.8</u>	<u>36.8</u>
Investing activities			
Additions of property and equipment	8	(55.7)	(21.9)
Insurance proceeds	8	-	3.2
Disposal of property and equipment	8	0.6	0.2
Net changes in items of working capital	18	3.1	-
Net cash used in investing activities		<u>(52.0)</u>	<u>(18.5)</u>
Financing activities			
Dividend payments	10	(9.1)	(7.2)
Issuance of common shares, net of costs	12	24.6	0.5
Purchase of common shares for cancellation	12	-	(0.2)
Loan receivable	19	-	0.4
Repayment of long-term debt	11	(6.7)	(7.0)
Net cash used in financing activities		<u>8.8</u>	<u>(13.5)</u>
Effect of exchange rate changes		<u>2.9</u>	<u>1.5</u>
Net change in cash and cash equivalents		<u>3.5</u>	<u>6.3</u>
Cash and cash equivalents – beginning of year		<u>33.7</u>	<u>27.4</u>
Cash and cash equivalents – end of year		<u>37.2</u>	<u>33.7</u>
Cash paid for:			
Interest		0.3	0.5
Income taxes		4.1	2.5

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, 2014 and 2013

(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 444 – 5th 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 Papua New Guinea and Canada.

As of December 31, 2014, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L. representing 39% of the outstanding common shares.

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").

The Financial Statements of High Arctic for the year ended December 31, 2014 were approved by the Board of Directors on March 11, 2015 after review by the Corporation's Audit Committee.

3 Significant Accounting Policies

Basis of measurement

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

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.

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.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

(Canadian \$ Million)

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

Financial assets are accounted for based on one of four classifications: fair value through profit or loss, held-to-maturity, available-for-sale investments and loans and receivables. The classification of a financial asset depends on its characteristics and the purpose for which it was acquired.

a) Loans and receivables

Cash and cash equivalents, accounts receivable, prepaid expenses and loan receivables are classified as loans and receivables. The fair value of cash and cash equivalents approximate their carrying value due to their short-term nature. Other items classified as loans and receivables in the Corporation's financial statements are accounted for at amortized cost using the effective interest method. 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 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 IAS 39 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.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Property and equipment

Property and equipment are stated at cost less accumulated amortization and accumulated impairment losses.

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

(Canadian \$ Million)

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. Amortization is calculated on the depreciable amount which is the carrying cost of an asset less its residual value. Amortization is recognized in the statement of earnings using the declining balance method over the estimated useful lives of the assets at the following rates:

Light vehicles	30%
Heavy trucks	15% - 20%
Buildings	4%
Office equipment and computer hardware	20% - 30%
Computer software	50% - 100%
Oilfield Equipment – support and shop	20%
Oilfield Equipment – drilling support	12.5% - 20%
Oilfield Equipment – hydraulic workover and UB rigs	12.5% - 15%
Oilfield Equipment – snubbing	15% - 17.5%
Oilfield Equipment – nitrogen	17.5%
Oilfield Equipment – rentals and matting	20%
Leasehold improvements	Lease term or five years

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 amortization 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.

Inventories

Inventories 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

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss calculated as the difference between the amortized cost of a loan or receivable and the present value of the estimated future cash flows, discounted using the current instrument's original effective interest rate. When an instrument carries a variable interest rate, the discount rate is based on the present value of the estimated future cash flows using the effective interest rate under the contract. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

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.

High Arctic Energy Services Inc.

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(Canadian \$ Million)

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.

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 amortization, 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. 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 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 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.

High Arctic Energy Services Inc.

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(Canadian \$ Million)

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.

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and 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.

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

High Arctic Energy Services Inc.

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For the years ended December 31, 2014 and 2013

(Canadian \$ Million)

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.

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 has determined that it has one reportable business segment of providing oilfield services to customers.

4 Changes in Accounting Policies

New standards and amendments effective for the first time

There were 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.

5 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

High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

(Canadian \$ Million)

beginning of a fiscal period. The Corporation is currently evaluating the impact of adopting IFRS 9 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, 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.

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 consolidated 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, amortization, impairment of property and equipment, income taxes and share-based compensation.

Allowance for doubtful accounts

The Corporation performs ongoing credit evaluations of its customers and grants credit based upon a review of historical collection experience, current aging status, the financial condition of the customer and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions.

Amortization

Amortization of the Corporation's property and equipment incorporates estimates of useful lives and residual values. 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. Management does not currently expect to generate sufficient taxable income in future years to fully utilize its Canadian tax losses and has currently recognized a deferred tax asset based on estimated future taxable profits which are probable of being utilized (Note 15).

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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-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 at the balance sheet 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.

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 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 aging of accounts receivables 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.

	2014	2013
Less than 31 days	16.7	21.0
31 to 60 days	3.9	0.6
61 to 90 days	0.2	0.6
Greater than 90 days	0.4	0.3
Allowance for doubtful accounts	(0.6)	(0.6)
Total	20.6	21.9
The Corporation's accounts receivables are denominated in the following currencies:		
Canadian dollar	7.0	7.4
United States dollar (2014 – US\$11.7; 2013 – US\$13.6)	13.6	14.5
Total	20.6	21.9

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8 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 years ended December 31, 2014 and 2013.

Cost:	Light vehicles	Heavy trucks	Oilfield equipment	Computer hardware and office equipment	Land & Building	Work-in-progress	Total
Balance January 1, 2013	2.7	13.1	118.9	3.0	1.2	7.4	146.3
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
Balance December 31, 2013	2.0	12.4	140.7	2.8	1.2	6.6	165.7
Additions	-	-	-	-	-	55.7	55.7
Disposals	(0.7)	(1.0)	(0.6)	-	-	-	(2.3)
Transfers	0.4	0.1	6.7	0.4	4.0	(11.6)	-
Effect of foreign exchange	-	-	5.5	-	-	2.4	7.9
Balance December 31, 2014	1.7	11.5	152.3	3.2	5.2	53.1	227.0

Accumulated amortization and impairments:	Light vehicles	Heavy trucks	Oilfield equipment	Computer hardware and office equipment	Land & Building	Work-in-progress	Total
Balance, January 1, 2013	1.3	9.0	72.6	2.1	-	-	85.0
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)
Reclassifications	(0.5)	(0.4)	1.1	(0.2)	-	-	-
Effect of foreign exchange	-	-	1.4	-	-	-	1.4
Balance, December 31, 2013	1.0	9.1	81.3	2.2	-	-	93.6
Amortization for the year	0.3	0.5	11.6	0.3	0.1	-	12.8
Disposals	(0.1)	(1.5)	(0.3)	-	-	-	(1.9)
Effect of foreign exchange	-	-	2.6	-	-	-	2.6
Balance, December 31, 2014	1.2	8.1	95.2	2.5	0.1	-	107.1

Carrying amounts of property and equipment:

At December 31, 2013	1.0	3.3	59.4	0.6	1.2	6.6	72.1
At December 31, 2014	0.5	3.4	57.1	0.7	5.1	53.1	119.9

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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 were packaged and shipped from Brazil to Houston to undergo upgrades required to meet the drilling standards in PNG and special adaptations requested by our customer under contract. The cost of each rig will remain in work-in-progress until it is shipped to PNG. Included in work-in-progress is \$0.1 million of capitalized general and administration costs. The first rig reached PNG in early March, 2015 and is expected to commence drilling operations in April, 2015.

Excess of Insurance Proceeds over Costs

In 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.

9 Accounts Payable and Accrued Liabilities

	2014	2013
Accounts payable	9.3	9.0
Accrued liabilities	6.6	3.8
Accrued payroll	1.7	2.7
Total	17.6	15.5

10 Dividend Payable

Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. During 2014, the Corporation declared dividends of \$9.4 million (2013 - \$7.2 million), of which \$0.9 million was payable as of December 31, 2014 (December 31, 2013 - \$0.6 million). Since December 31, 2014, a monthly dividend of \$0.0165 per share has been declared for a total of \$1.8 million.

11 Long-Term Debt

As at December 31, 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. On December 31, 2014, no amounts were outstanding for the credit facility (2013 - \$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 December 31, 2014, no guarantee had been executed with EDC and the total credit available to draw under the facility was approximately \$29.2 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% on the balance outstanding in 2014 and for the year ended December 31, 2013.

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12 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:	2014		2013	
	Shares	\$	Shares	\$
Balance, beginning of year	50,013,592	169.1	47,995,322	167.4
Common share offering, net of issuance costs	5,051,000	23.6	-	-
Issuance of shares upon exercise of options (note 13)	567,060	1.4	345,740	1.0
Normal course issuer bid	-	-	(105,470)	(0.4)
Vested restricted shares (note 13)	14,000	-	1,778,000	1.0
Common shares outstanding	55,645,652	194.1	50,013,592	169.0
Restricted shares outstanding (note 13)	123,000	0.2	32,000	0.1
Total common and restricted shares outstanding	55,768,652	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.

For the year ended December 31, 2014, a total of 567,060 stock options were exercised (2013 – 345,740) for shares of the Corporation (see Note 13).

Normal Course Issuer Bids

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.

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 second Normal Course Issuer Bid. This second Bid commenced on January 12, 2015 and is valid for one year. As of March 11, 2015, 338,000 common shares have been purchased and cancelled pursuant to the Bid at a total cost of \$1.2 million.

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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.

	2014		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	52,503,654	\$0.54	48,627,561	\$0.51
Dilution effect of options and restricted shares	860,932	(0.1)	300,758	(0.01)
Weighted average number of common shares used in diluted earnings per share	53,364,586	\$0.53	48,928,319	\$0.50

13 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 5,576,865 options (being 10% of all outstanding shares) are available for grants. At December 31, 2014, a total of 3,247,100 options are outstanding and expire at various dates up to 2019, at amounts that range from \$1.00 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 4.0 years and 744,300 options are currently vested and eligible to be exercised.

	Number of Options	Weighted Average Exercise Price \$/Share
Total Outstanding January 1, 2013	1,204,800	1.29
Granted	1,615,000	2.80
Exercised	(345,740)	1.15
Forfeited	(17,700)	1.18
Expired	(700)	0.96
Total Outstanding December 31, 2013	2,455,660	2.30
Granted	1,756,000	4.81
Exercised	(567,060)	1.84
Forfeited	(366,300)	3.27
Expired	(31,200)	0.84
Total Outstanding December 31, 2014	3,247,100	3.65

The options exercised in 2014 had a weighted average market price of \$5.23 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	454,100	2.1	1.47	225,300	1.43
\$2.12 to \$2.83	763,000	3.5	2.52	358,000	2.60
\$3.39 to \$3.87	905,000	4.5	3.68	161,000	3.41
\$4.92 to \$5.32	1,125,000	4.6	5.26	-	-
Total Outstanding					
December 31, 2014	3,247,100	4.0	3.65	744,300	2.42

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, 2014 was \$1.2 million (2013 - \$0.5 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	1.33	1.19
Average expected life (years)	3.0	3.1
Expected volatility (%)	48	63
Expected forfeiture rate (%)	21	28
Average risk-free interest rate (%)	1.06	1.12
Expected distribution yield (%)	3.4	5.6

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, 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.

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The following common shares have been issued under the EDSIP since its inception:

Date of Issuance	Number of Shares Granted	Number of Shares Forfeited	Compensation per share	Unvested Shares outstanding December 31, 2014
September, 2010	7,100,000	840,000	\$0.825	-
March, 2011	200,000	-	\$1.05	-
July, 2012	40,000	20,000	\$1.60	6,000
February, 2013	20,000	-	\$2.35	12,000
August, 2014	105,000	-	\$5.29	105,000
Total	7,465,000	860,000		123,000

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

	2014	2013
Balance, beginning of year	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 year	123,000	32,000

For the year ended December 31, 2014, the Corporation incurred share based compensation expense of \$0.2 million (2013- \$0.3 million) related to the EDSIP and an amount of up to \$0.4 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.

Restricted Shares Units

During 2014, the Corporation awarded 80,000 Restricted Share Units ("RSUs") to two 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 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.

For the year ended December 31, 2014, the Corporation incurred share based compensation expense of \$0.1 million (2013- nil) related to the 80,000 RSUs issued and an amount of up to \$0.2 million (before recognizing a reduction for any future forfeitures) remains to be amortized in future periods in respect of the RSUs. A forfeiture rate of nil has been assumed in the share based compensation expense assumptions.

14 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 income tax rate of 25.0% to the net earnings before income taxes. The effective tax rates are as follows:

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	2014	2013
Net earnings before income taxes	34.0	29.6
Canadian statutory tax rate	25.0%	25.0%
Computed income tax expense at the statutory rate	8.5	7.4
Increase (decrease) resulting from:		
Non-deductible expenses	0.4	0.2
Tax rate differences for foreign subsidiaries	(1.0)	(1.0)
Canadian timing differences not recognized for tax	(2.1)	(1.6)
Income tax expense	5.8	5.0
Effective tax rate	17.1%	16.9%

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.

	Deferred Tax Asset Canada	Deferred Tax Liability Papua New Guinea
Balance January 1, 2013	5.0	(1.0)
Credited to earnings	-	0.5
Balance December 31, 2013	5.0	(0.5)
Charged to earnings	-	(0.2)
Balance December 31, 2014	5.0	(0.7)

As at December 31, 2014 a deferred tax asset of \$5.0 million (2013 – \$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. Of the \$5.0 million deferred tax asset, none is expected to be recovered within the next twelve months. 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:

	2014	2013
Property and equipment	(3.8)	2.3
Non- capital losses	67.7	73.7
Financing costs	3.5	3.1
Total	67.4	79.1

Earnings retained by subsidiaries that may be subject to dividend withholding taxes in the country of origin upon repatriation amounted to \$61.8 million as at December 31, 2014. The average dividend withholding rate is estimated to be 17%. No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings because the Company controls the relevant entities and has no committed plans to remit the earnings in the foreseeable future.

At December 31, 2014, the Canadian non-capital losses carried forward for income tax purposes was \$87.7 million (2013 – \$93.7 million) which expire in years 2024 through 2034. Also at December 31, 2014, the

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Canadian capital losses carried forward for income tax purposes was \$36.0 million (2013 – \$5.4 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.

15 Expenses

Oilfield services expenses by nature	2014	2013
Personnel costs and personnel related costs	45.8	44.9
Drilling rig rental cost	37.8	30.6
Material and supplies cost	17.5	16.1
Equipment operating and maintenance costs	8.7	8.8
Other	0.8	1.0
Total	110.6	101.4

General and administrative expenses by nature	2014	2013
Personnel costs and personnel related costs	8.1	6.8
Professional, legal and consulting fees	0.9	0.8
Facility costs	1.4	1.0
Leases	0.7	0.7
Other	0.8	0.5
Total	11.9	9.8

16 Wages and Benefit Expense

	2014	2013
Salaries and wages and short-term employee benefits	51.4	51.2
Post-employment benefits	0.3	0.5
	51.7	51.7
Stock based compensation	1.4	0.8
Total	53.1	52.5

Compensation of key management	2014	2013
Salaries and wages and short-term employee benefits	2.0	2.5
Post-employment benefits	0.3	0.5
	2.3	3.0
Stock based compensation	1.1	0.6
Total	3.4	3.6

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

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17 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, 2014:

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

18 Supplemental Cash Flow Information

Changes in non-cash working capital is comprised of:

	Note	2014	2013
Accounts receivable	7	2.5	(2.0)
Inventory and prepaid expenses		(1.2)	0.1
Accounts payable and accrued liabilities	9	1.1	0.3
Income taxes receivable and payable		1.2	3.1
Total		3.6	1.5
Related to:			
Operating activities		0.5	1.5
Investing activities		3.1	-
		3.6	1.5

19 Related Party Transactions

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 13). The principal amount of each loan bears interest at an annual rate of 2%. Each loan is fully payable on the earlier

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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 December 31, 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 which terminated on December 31, 2014. The related cost is included in general and administration expenses.

20 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. A lawsuit was filed against the Corporation on January 8, 2015, alleging that a group of defendants including the Corporation breached their contract for the provision of well planning, drilling, completion, snubbing and/or testing services. The plaintiff claims damages in the amount of \$20 million. It is not possible at this time to estimate the outcome of the lawsuit. The Corporation denies the allegations and has filed a Statement of Defence on March 2, 2015. No amounts have been recorded for any potential liability arising from this matter, as the Corporation cannot reasonably predict the outcome.

The Corporation believes that the ultimate liability arising from these matters will have no material effect on the Financial Statements.

21 Capital Disclosures

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

	2014	2013
Shareholders' equity	165.6	111.8
Total long-term debt	-	6.7
Cash and cash equivalents	(37.2)	(33.7)
Total Capitalization	128.4	84.8

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

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22 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 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, 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.

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, 2014 a one percent change in interest rates on the loan facility would have amounted to a change in interest expense and earnings of less than \$0.1 million (2013 - \$0.1 million).

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, 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.

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 account 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 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 35% of the Corporation's revenue for the year ended December 31, 2014 (2013 - 65%) and 16% of its accounts receivable at that date (2013 - 45%). The second customer represents approximately 28% of the Corporation's revenue for the year ended December 31, 2014 (2013 - nil) and 41% 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 year ended December 31, 2014 (2013 - 9%) and 2% of the Corporation's accounts receivable at that date (2013 - 2%). Management has assessed the three customers as creditworthy and the Corporation has had no history of collection issues with these customers.

High Arctic Energy Services Inc.

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For the years ended December 31, 2014 and 2013

(Canadian \$ Million)

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:

2014	Beyond 5				Total
	1 Year	2-3 Years	4-5 Years	Years	
Accounts payable	17.6	-	-	-	17.6
Dividends payable	0.9	-	-	-	0.9
Total	18.5	-	-	-	18.5

2013	Beyond 5				Total
	1 Year	2-3 Years	4-5 Years	Years	
Accounts payable	15.5	-	-	-	15.5
Dividends payable	0.6	-	-	-	0.6
Long-term debt	0.3	6.9	-	-	7.2
Total	16.4	6.9	-	-	23.3

23 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 December 31, 2014 are:

	Beyond 5				Total
	1 Year	2-3 Years	4-5 Years	Years	
Facility lease commitments	0.6	1.0	0.5	-	2.1
Total lease commitments	0.6	1.0	0.5	-	2.1

Rig Construction

As of December 31, 2014, the Corporation was in the process of completing work on two rigs. In January, 2015, one of these rigs was completed and was delivered into the PNG operations in early March. The second rig is currently undergoing refurbishment and customer requested upgrades and is expected to be delivered to PNG in the third quarter of 2015. The total anticipated property and equipment expenditures remaining to be incurred in 2015 to meet the contractual obligations with our customer for the rigs is approximately \$32.3 million.

High Arctic Energy Services Inc.

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(Canadian \$ Million)

24 Operating Segment

The Corporation determines its operating segment 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:

	2014	2013
Revenue		
Papua New Guinea	123.5	111.9
Canada	48.3	40.8
Total	171.8	152.7

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

	2014	2013
Current assets		
Canada	40.9	33.4
Papua New Guinea	22.7	26.6
	63.6	60.0
Non-current assets		
Canada	42.5	41.8
Papua New Guinea	82.6	35.3
	125.1	77.1
Total assets	188.7	137.1
Liabilities		
Canada	5.6	12.1
Papua New Guinea	17.5	13.2
Total liabilities	23.1	25.3

Included in the current assets attributed to Canada as at December 31, 2014 is \$10.9 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 in work-in-progress undergoing refurbishment in Houston for use in 2015 in Papua New Guinea.