

# **HIGH ARCTIC ENERGY SERVICES INC.**



## **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED  
MARCH 31, 2015**

Consolidated Statements of Financial Position  
As at March 31, 2015 and December 31, 2014  
Unaudited - Canadian \$ Millions



	Notes	March 31, 2015	December 31, 2014
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		28.4	37.2
Accounts receivable	5	22.9	20.6
Inventories		4.9	5.0
Prepaid expenses		0.4	0.8
		<u>56.6</u>	<u>63.6</u>
<b>Non-current assets</b>			
Property and equipment	6	145.7	119.9
Deferred tax asset		5.0	5.0
Loans due from related parties	15	0.1	0.2
		<u>150.8</u>	<u>125.1</u>
<b>Total assets</b>		<b><u>207.4</u></b>	<b><u>188.7</u></b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	7	23.0	17.4
Current portion of deferred revenues	8	0.3	0.2
Income taxes payable		5.0	3.5
Dividend payable	9	0.9	0.9
		<u>29.2</u>	<u>22.0</u>
<b>Non-current liabilities</b>			
Deferred revenue	8	0.3	0.4
Deferred tax liability		0.6	0.7
		<u>0.9</u>	<u>1.1</u>
<b>Total liabilities</b>		<b><u>30.1</u></b>	<b><u>23.1</u></b>
<b>Shareholders' equity</b>	10	<b><u>177.3</u></b>	<b><u>165.6</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>207.4</u></b>	<b><u>188.7</u></b>
Contingencies and commitments	16, 19		

See accompanying notes to these interim consolidated financial statements.

**Approved on behalf of the Corporation by:**

(signed) "Tom Alford" Director

(signed) "Michael Binnion" Director

Consolidated Statements of Earnings and  
Comprehensive Income  
For the three months ended March 31, 2015 and 2014  
Unaudited - Canadian \$ Millions, except per share amounts )



		2015	2014
	<b>Note</b>		
<b>Revenue</b>	20	44.7	44.5
<b>Expenses</b>			
Oilfield services	12	30.7	26.4
General and administration	12	3.6	3.0
Amortization	6	2.9	3.0
Share-based compensation	11	0.6	0.3
		37.8	32.7
<b>Operating earnings</b>		<b>6.9</b>	<b>11.8</b>
Foreign exchange loss		0.3	0.6
Interest and finance expense		0.1	0.2
<b>Net earnings before income taxes</b>		<b>6.5</b>	<b>11.0</b>
Current income tax expense		1.8	1.7
Deferred income tax recovery		(0.1)	-
<b>Net earnings for the period</b>		<b>4.8</b>	<b>9.3</b>
<b>Earnings per share:</b>	10		
Basic		0.09	0.19
Diluted		0.09	0.18
		<b>2015</b>	<b>2014</b>
<b>Net earnings for the period</b>		4.8	9.3
<b>Other comprehensive income: Items that may be reclassified subsequently to net income:</b>			
Foreign currency translation gains for foreign operations, net of tax		10.8	3.3
<b>Comprehensive income for the period</b>		<b>15.6</b>	<b>12.6</b>

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Changes in Equity  
 For the three months ended March 31, 2015 and 2014  
 Unaudited - Canadian \$ Millions



	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained deficit	Total equity
<b>Balance at January 1, 2015</b>		194.3	8.5	11.4	(48.6)	165.6
Net earnings		-	-	-	4.8	4.8
Dividends	9	-	-	-	(2.7)	(2.7)
Other comprehensive income - foreign currency translation gain		-	-	10.8	-	10.8
Purchase of common shares for cancellation	10	(1.6)	(0.1)	-	-	(1.7)
Share-based payment transactions		0.1	0.4	-	-	0.5
<b>Balance at March 31, 2015</b>		<b>192.8</b>	<b>8.8</b>	<b>22.2</b>	<b>(46.5)</b>	<b>177.3</b>

  

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained deficit	Total equity
<b>Balance at January 1, 2014</b>		169.1	7.7	2.4	(67.4)	111.8
Net earnings		-	-	-	9.3	9.3
Dividends	9	-	-	-	(2.0)	(2.0)
Other comprehensive income - foreign currency translation gain		-	-	3.3	-	3.3
Share-based payment transactions		0.1	0.3	-	-	0.4
<b>Balance at March 31, 2014</b>		<b>169.2</b>	<b>8.0</b>	<b>5.7</b>	<b>(60.1)</b>	<b>122.8</b>

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Cash Flows  
For the three months ended March 31, 2015 and 2014  
Unaudited - Canadian \$ Millions



	Notes	2015	2014
Net earnings for the period		4.8	9.3
Adjustments for:			
Amortization	6	2.9	3.0
Share-based compensation	11	0.6	0.3
Deferred income tax recovery		(0.1)	-
Foreign exchange loss		-	0.5
		8.2	13.1
Net changes in items of working capital	14	4.9	(1.9)
<b>Net cash generated from operating activities</b>		<b>13.1</b>	<b>11.2</b>
<b>Investing activities</b>			
Additions of property and equipment	6	(21.1)	(1.5)
Disposal of property and equipment	6	0.1	0.1
Net changes in items of working capital	14	0.3	-
<b>Net cash used in investing activities</b>		<b>(20.7)</b>	<b>(1.4)</b>
<b>Financing activities</b>			
Dividend payments	9	(2.7)	(1.8)
Purchase of common shares for cancellation	10	(1.7)	-
Loan receivable	15	0.1	-
<b>Net cash used in financing activities</b>		<b>(4.3)</b>	<b>(1.8)</b>
<b>Effect of exchange rate changes</b>		<b>3.1</b>	<b>1.2</b>
<b>Net change in cash and cash equivalents</b>		<b>(8.8)</b>	<b>9.2</b>
<b>Cash and cash equivalents – beginning of period</b>		<b>37.2</b>	<b>33.7</b>
<b>Cash and cash equivalents – end of period</b>		<b>28.4</b>	<b>42.9</b>
<b>Cash paid for:</b>			
Interest		0.1	0.1
Income taxes		0.3	0.8

See accompanying notes to these consolidated financial statements.

## 1 Nature of Business

High Arctic Energy Services Inc. (“High Arctic” or “the Corporation”) is incorporated under the laws of Alberta, Canada and is a publicly traded Corporation listed on the Toronto Stock Exchange under the symbol “HWO”. The head office of the Corporation is located at 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, equipment rental and other oilfield services to the oil and gas industry in Papua New Guinea and Canada.

As of March 31, 2015, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L. representing approximately 39.6% 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, 2014, 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, 2014, which have been prepared in accordance with IFRS as issued by the IASB.

The Financial Statements of High Arctic for the three months ended March 31, 2015 were approved by the Board of Directors on May 8, 2015 after review by the Corporation’s Audit Committee.

## 3 Recent Accounting Pronouncements

### 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.

### 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.

## 4 Seasonality of Operations

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

## 5 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.

	March 31, 2015	December 31, 2014
Less than 31 days	20.4	16.7
31 to 60 days	2.1	3.9
61 to 90 days	0.2	0.2
Greater than 90 days	0.8	0.4
Allowance for doubtful accounts	(0.6)	(0.6)
<b>Total</b>	<b>22.9</b>	<b>20.6</b>
The Corporation's accounts receivables are denominated in the following currencies:		
Canadian dollar	5.1	7.0
United States dollar (2015 – US\$14.1; 2014 – US\$11.7)	17.8	13.6
<b>Total</b>	<b>22.9</b>	<b>20.6</b>

## 6 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, 2014 and the three months ended March 31, 2015.

Cost:	Computer hardware and office equipment						Total
	Light vehicles	Heavy trucks	Oilfield equipment	Land & Building	Work-in-progress		
<b>Balance January 1, 2014</b>	<b>2.0</b>	<b>12.4</b>	<b>140.7</b>	<b>2.8</b>	<b>1.2</b>	<b>6.6</b>	<b>165.7</b>
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
<b>Balance December 31, 2014</b>	<b>1.7</b>	<b>11.5</b>	<b>152.3</b>	<b>3.2</b>	<b>5.2</b>	<b>53.1</b>	<b>227.0</b>
Additions	-	-	0.2	0.1	-	20.8	21.1
Disposals	-	-	(0.3)	-	-	-	(0.3)
Transfers	-	-	0.4	-	0.1	(0.5)	-
Effect of foreign exchange	-	-	6.2	-	-	4.9	11.1
<b>Balance March 31, 2015</b>	<b>1.7</b>	<b>11.5</b>	<b>158.8</b>	<b>3.3</b>	<b>5.3</b>	<b>78.3</b>	<b>258.9</b>

Notes to the Condensed Consolidated  
Financial Statements  
For the three months ended March 31, 2015 and 2014  
Unaudited - Canadian \$ Millions



<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>Land &amp; Building</b>	<b>Work-in-progress</b>	<b>Total</b>
<b>Balance, January 1, 2014</b>	<b>1.0</b>	<b>9.1</b>	<b>81.3</b>	<b>2.2</b>	<b>-</b>	<b>-</b>	<b>93.6</b>
Amortization for the period	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
<b>Balance, December 31, 2014</b>	<b>1.2</b>	<b>8.1</b>	<b>95.2</b>	<b>2.5</b>	<b>0.1</b>	<b>-</b>	<b>107.1</b>
Amortization for the period	0.1	0.1	2.6	0.1	-	-	2.9
Disposals	-	-	(0.2)	-	-	-	(0.2)
Effect of foreign exchange	0.1	0.1	3.2	-	-	-	3.4
<b>Balance, March 31, 2015</b>	<b>1.4</b>	<b>8.3</b>	<b>100.8</b>	<b>2.6</b>	<b>0.1</b>	<b>-</b>	<b>113.2</b>

**Carrying amounts of property and equipment:**

At December 31, 2014	<b>0.5</b>	<b>3.4</b>	<b>57.1</b>	<b>0.7</b>	<b>5.1</b>	<b>53.1</b>	<b>119.9</b>
<b>At March 31, 2015</b>	<b>0.3</b>	<b>3.2</b>	<b>58.0</b>	<b>0.7</b>	<b>5.2</b>	<b>78.3</b>	<b>145.7</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 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 its first wellsite in PNG. Included in work-in-progress is \$0.1 million of capitalized general and administration costs. The first rig reached PNG in March, 2015 and is expected to commence drilling operations in May, 2015.

**7 Accounts Payable and Accrued Liabilities**

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Accounts payable	11.8	9.3
Accrued liabilities	7.4	6.4
Accrued payroll	3.8	1.7
<b>Total</b>	<b>23.0</b>	<b>17.4</b>

**8 Deferred Revenue**

Pursuant to a contract related to the provision of a drilling rig, the Corporation has received \$0.6 million that will be recognized as revenue in future periods. The portion that will be recognized as revenue in the next twelve months has been disclosed as current (\$0.3 million) with the remaining \$0.3 million disclosed as a long term liability.



## 9 Dividend Payable

Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. During the three months ended March 31, 2015, the Corporation declared dividends of \$2.7 million (2014 - \$2.0 million), of which \$0.9 million was payable as of March 31, 2015 (December 31, 2014 - \$0.9 million). Since March 31, 2015, a monthly dividend of \$0.0165 per share has been declared for a total of \$0.9 million.

## 10 Share Capital

### (a) Share Capital

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

Issued:	Three months ended March 31, 2015		Year ended December 31, 2014	
	Shares	\$	Shares	\$
Common shares outstanding, beginning of period	55,645,652	194.1	50,013,592	169.1
Common share offering, net of issuance costs	-	-	5,051,000	23.6
Issuance of shares upon exercise of options (note 11)	6,000	-	567,060	1.4
Normal course issuer bid	(473,400)	(1.6)	-	-
Vested restricted shares (note 11)	-	-	14,000	-
Common shares outstanding, end of period	55,178,252	192.5	55,645,652	194.1
Restricted shares outstanding (note 11)	123,000	0.3	123,000	0.2
Total common and restricted shares outstanding	55,301,252	192.8	55,768,652	194.3

### 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 three months ended March 31, 2015, 6,000 options were exercised (Year ended December 31, 2014 - 567,060) for shares of the Corporation (see Note 11).

### Normal Course Issuer Bid

In January, 2015, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 5 percent of the Corporation's issued and outstanding common shares under a second Normal Course Issuer Bid. The Bid commenced on January 12, 2015 and is valid for one year. As of March 31, 2015, 473,400 common shares had been purchased pursuant to the Bid at a total cost of \$1.7 million.

**(b) Per Share Amounts**

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

	2015		2014	
	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings per share	55,233,295	\$0.09	50,028,354	\$0.19
Dilution effect of options	531,773	-	547,408	(0.01)
Weighted average number of common shares used in diluted earnings per share	55,765,068	\$0.09	50,575,762	\$0.18

**11 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 5,530,125 options (being 10% of all outstanding shares) are available for grants. At March 31, 2015, a total of 3,331,600 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 3.8 years and 1,094,800 options are currently vested and eligible to be exercised.

	Number of Options	Weighted Average Exercise Price \$/Share
<b>Total Outstanding January 1, 2014</b>	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
<b>Total Outstanding December 31, 2014</b>	3,247,100	3.65
Granted	150,000	3.64
Exercised	(6,000)	1.00
Forfeited	(59,500)	4.39
<b>Total Outstanding March 31, 2015</b>	<b>3,331,600</b>	<b>3.64</b>

The options exercised in 2015 had a weighted average market price of \$3.64 (2014 -\$5.23) per share on the date of exercise.

Notes to the Condensed Consolidated  
Financial Statements  
For the three months ended March 31, 2015 and 2014  
Unaudited - Canadian \$ Millions



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	433,600	1.9	1.47	313,800	1.39
\$2.12 to \$2.83	763,000	3.2	2.52	470,000	2.50
\$3.39 to \$3.87	1,055,000	4.4	3.68	311,000	3.52
\$4.92 to \$5.32	1,080,000	4.3	5.26	-	-
<b>Total Outstanding</b>					
<b>March 31, 2015</b>	<b>3,331,600</b>	<b>3.8</b>	<b>3.64</b>	<b>1,094,800</b>	<b>2.48</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 three months ended March 31, 2015 was \$0.5 million (2014 - \$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	2015	2014	2013
Average fair value per option granted	0.71	1.33	1.19
Average expected life (years)	3.0	3.0	3.1
Expected volatility (%)	41	48	63
Expected forfeiture rate (%)	0	21	28
Average risk-free interest rate (%)	0.46	1.06	1.12
Expected distribution yield (%)	5.2	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 March 31, 2015. 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.

Notes to the Condensed Consolidated  
Financial Statements  
For the three months ended March 31, 2015 and 2014  
Unaudited - Canadian \$ Millions



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 March 31, 2015
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
April, 2013	20,000	-	\$2.35	12,000
August, 2014	105,000	-	\$5.29	105,000
<b>Total</b>	<b>7,465,000</b>	<b>860,000</b>		<b>123,000</b>

For the three months ended March 31, 2015, the Corporation incurred share based compensation expense of \$0.1 million (2014- nil) related to the EDSIP and an amount of up to \$0.3 million (before recognizing a reduction for any future forfeitures of common shares) remains to be amortized in future periods in respect of the common shares issued to date under the Plan. A forfeiture rate of nil has been assumed in the share based compensation expense assumptions for the common shares issued under the EDSIP.

#### 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 three months ended March 31, 2015, the Corporation incurred share based compensation expense of \$0.1 million (2014- 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 for the RSUs.

## 12 Expenses

Oilfield services expenses by nature	2015	2014
Personnel costs and personnel related costs	13.2	11.7
Drilling rig rental cost	11.0	8.9
Material and supplies cost	4.4	3.1
Equipment operating and maintenance costs	1.9	2.5
Other	0.2	0.2
<b>Total</b>	<b>30.7</b>	<b>26.4</b>
<b>General and administrative expenses by nature</b>	<b>2015</b>	<b>2014</b>

Notes to the Condensed Consolidated  
Financial Statements  
For the three months ended March 31, 2015 and 2014  
Unaudited - Canadian \$ Millions



Personnel costs and personnel related costs	2.4	2.0
Professional, legal and consulting fees	0.3	0.3
Facility costs	0.4	0.2
Leases	0.2	0.2
Other	0.3	0.3
<b>Total</b>	<b>3.6</b>	<b>3.0</b>

### 13 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 March 31, 2015:

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

### 14 Supplemental Cash Flow Information

Changes in non-cash working capital is comprised of:

	Note	2015	2014
Accounts receivable	5	(1.0)	(2.7)
Inventory and prepaid expenses		0.7	0.3
Accounts payable and accrued liabilities	7	4.3	(0.3)
Income taxes payable		1.2	0.8
<b>Total</b>		<b>5.2</b>	<b>(1.9)</b>
<b>Related to:</b>			
<b>Operating activities</b>		<b>4.9</b>	<b>(1.9)</b>
<b>Investing activities</b>		<b>0.3</b>	<b>-</b>
		<b>5.2</b>	<b>(1.9)</b>

## 15 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 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 March 31, 2015, the amount outstanding related to these loans was \$0.1 million.

## 16 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 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.

## 17 Capital Disclosures

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

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Shareholders' equity	177.3	165.6
Cash and cash equivalents	(28.1)	(37.2)
<b>Total Capitalization</b>	<b>149.2</b>	<b>128.4</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.

While no long term debt was outstanding as at March 31, 2015, 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.

## 18 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 three months ended March 31, 2015 a one percent change in interest rates on the loan facility would not have resulted in any change in interest expense or earnings (2014 – less than \$0.1 million) as there was no long term debt outstanding during the period.

#### **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 three months ended March 31, 2015, a 1% nominal change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a \$1.2 million (2014 - \$0.9 million) change in other comprehensive income and a change of less than \$0.1 million (2014 – \$0.1 million) 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

Notes to the Condensed Consolidated  
Financial Statements  
For the three months ended March 31, 2015 and 2014  
Unaudited - Canadian \$ Millions



Papua New Guinea. One customer represents approximately 36% of the Corporation's revenue for the three months ended March 31, 2015 (2014 – 35%) and 23% of its accounts receivable at that date (2014 - 28%). The second customer represents approximately 37% of the Corporation's revenue for the three months ended March 31, 2015 (2014 – 18%) and 32% of its accounts receivable at that date (2014 – 8%). Management has assessed both 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 contractual maturities of financial liabilities in their future fair value amounts:

March 31, 2015	Beyond 5				Total
	1 Year	2-3 Years	4-5 Years	Years	
Accounts payable	23.0	-	-	-	23.0
Dividends payable	0.9	-	-	-	0.9
<b>Total</b>	<b>23.9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23.9</b>

  

December 31, 2014	Beyond 5				Total
	1 Year	2-3 Years	4-5 Years	Years	
Accounts payable	17.4	-	-	-	17.4
Dividends payable	0.9	-	-	-	0.9
<b>Total</b>	<b>18.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18.3</b>

**19 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 March 31, 2015 are:

	Beyond 5				Total
	1 Year	2-3 Years	4-5 Years	Years	
Facility lease commitments	0.6	1.0	0.4	-	2.0
<b>Total lease commitments</b>	<b>0.6</b>	<b>1.0</b>	<b>0.4</b>	<b>-</b>	<b>2.0</b>

**Rig Construction**

As of March 31, 2015, the Corporation was in the process of completing work on two rigs. In early March, 2015, one of these rigs was delivered to a PNG port and has since been moved to its first wellsite. Drilling operations are expected to commence in early May. 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 \$19.3 million.



## 20 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:

	<b>Three months ended March 31, 2015</b>	<b>Three months ended March 31, 2014</b>
<b>Revenue</b>		
Papua New Guinea	35.2	29.5
Canada	9.5	15.0
Total	<b>44.7</b>	<b>44.5</b>

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

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<b>Current assets</b>		
Canada	29.6	40.9
Papua New Guinea	27.0	22.7
	<b>56.6</b>	<b>63.6</b>
<b>Non-current assets</b>		
Canada	42.4	42.5
Papua New Guinea	108.4	82.6
	<b>150.8</b>	<b>125.1</b>
<b>Total assets</b>	<b>207.4</b>	<b>188.7</b>
<b>Liabilities</b>		
Canada	4.7	5.6
Papua New Guinea	25.4	17.5
<b>Total liabilities</b>	<b>30.1</b>	<b>23.1</b>

Included in the current assets attributed to Canada as at March 31, 2015 is \$7.8 million (December 31, 2014 - \$10.9 million) held in a bank account in Singapore. The segment presentation of non-current assets is based on the geographic location of the assets. Drilling rigs in work-in-progress undergoing refurbishment in Houston are included in Papua New Guinea's assets.