

HIGH ARCTIC ENERGY SERVICES INC.



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE AND NINE MONTH PERIODS ENDED
SEPTEMBER 30, 2015**

Consolidated Statements of Financial Position
As at September 30, 2015 and December 31, 2014
Unaudited - Canadian \$ Millions



	Notes	September 30, 2015	December 31, 2014
Assets			
Current assets			
Cash and cash equivalents		21.5	37.2
Accounts receivable	5	29.2	20.6
Short term investments	6	12.4	-
Inventories		7.9	5.0
Prepaid expenses		1.0	0.8
		<u>72.0</u>	<u>63.6</u>
Non-current assets			
Property and equipment	7	162.5	119.9
Deferred tax asset		5.0	5.0
Loans due from related parties	17	-	0.2
		<u>-</u>	<u>0.2</u>
Total assets		<u>239.5</u>	<u>188.7</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	27.7	17.4
Current portion of deferred revenues	9	1.2	0.2
Income taxes payable		6.7	3.5
Dividend payable	10	0.9	0.9
		<u>36.5</u>	<u>22.0</u>
Non-current liabilities			
Deferred revenue	9	1.3	0.4
Long-term debt	11	9.0	-
Deferred tax liability		0.8	0.7
		<u>11.1</u>	<u>1.1</u>
Total liabilities		<u>47.6</u>	<u>23.1</u>
Shareholders' equity	12	<u>191.9</u>	<u>165.6</u>
Total liabilities and shareholders' equity		<u>239.5</u>	<u>188.7</u>
Contingencies and commitments	18, 21		

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 and nine months ended September 30, 2015 and
2014

Unaudited - Canadian \$ Millions, except per share amounts



	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2015	2014	2015	2014
Revenue	22	58.5	41.3	151.9	125.6
Expenses					
Oilfield services	14	36.4	28.4	98.2	80.8
General and administration	14	3.4	3.1	10.5	8.8
Amortization	7	4.4	3.2	10.8	9.4
Share-based compensation	13	0.4	0.4	1.4	1.0
		44.6	35.1	120.9	100.0
Operating earnings for the period		13.9	6.2	31.0	25.6
Loss on short term investments	6	4.1	-	4.1	-
Foreign exchange loss		-	1.3	0.3	1.2
Interest and finance expense		0.1	0.1	0.3	0.4
Loss (gain) on sale of assets		0.2	(0.2)	0.5	(0.2)
Net earnings before income taxes		9.5	5.0	25.8	24.2
Current income tax expense		2.4	1.3	7.7	4.5
Deferred income tax expense		1.0	-	-	-
Net earnings for the period		6.1	3.7	18.1	19.7
Earnings per share:	12				
Basic		0.11	0.07	0.33	0.39
Diluted		0.11	0.07	0.32	0.39
		Three Months Ended September 30		Nine Months Ended September 30	
		2015	2014	2015	2014
Net earnings for the period		6.1	3.7	18.1	19.7
Other comprehensive income:					
Items that may be reclassified subsequently to net income:					
Foreign currency translation gains (losses) for foreign operations		9.4	4.9	18.5	4.9
Comprehensive income for the period		15.5	8.6	36.6	24.6

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Changes in Equity
For the nine months ended September 30, 2015 and 2014
Unaudited - Canadian \$ Millions



	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained deficit	Total equity
Balance at January 1, 2015		194.3	8.5	11.4	(48.6)	165.6
Net earnings		-	-	-	18.1	18.1
Dividends	10	-	-	-	(8.2)	(8.2)
Other comprehensive income - foreign currency translation gain		-	-	18.5	-	18.5
Purchase of common shares for cancellation	12	(3.3)	(0.2)	-	-	(3.5)
Share-based payment transactions		0.4	1.0	-	-	1.4
Balance at September 30, 2015		191.4	9.3	29.9	(38.7)	191.9

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained deficit	Total equity
Balance at January 1, 2014		169.1	7.7	2.4	(67.4)	111.8
Net earnings		-	-	-	19.7	19.7
Dividends	10	-	-	-	(6.7)	(6.7)
Other comprehensive income - foreign currency translation gain		-	-	4.9	-	4.9
Issuance of common shares (net of costs)	12	23.6	-	-	-	23.6
Share-based payment transactions		1.6	0.4	-	-	2.0
Balance at September 30, 2014		194.3	8.1	7.3	(54.4)	155.3

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2015 and 2014

Unaudited - Canadian \$ Millions



	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2015	2014	2015	2014
Operating activities					
Net earnings for the period		6.1	3.7	18.1	19.7
Adjustments for:					
Unrealized loss on short term investments		4.1	-	4.1	-
Amortization	7	4.4	3.2	10.8	9.4
Share-based compensation	13	0.4	0.4	1.4	1.0
Loss (gain) on sale of assets		0.2	(0.2)	0.5	(0.2)
Foreign exchange (gain) loss		(1.9)	0.5	(1.9)	0.6
Deferred income tax expense		1.0			
		14.3	7.6	33.0	30.5
Net changes in items of working capital	15	(6.1)	3.3	6.8	9.2
Net cash generated from operating activities		8.2	10.9	39.8	39.7
Investing activities					
Additions of property and equipment	7	(2.9)	(36.8)	(39.4)	(41.0)
Acquisition of short term investments		(15.9)	-	(16.5)	-
Proceeds on sale of property and equipment	7	-	0.3	0.2	0.5
Net changes in items of working capital	15	(1.4)	6.5	(3.1)	-
Net cash used in investing activities		(20.2)	(30.0)	(58.8)	(40.5)
Financing activities					
Dividend payments	10	(2.7)	(2.4)	(8.2)	(6.5)
Issuance of common shares	12	-	24.2	0.1	24.6
Purchase of common shares for cancellation	12	(1.5)	-	(3.5)	-
Long-term debt proceeds (repayment)		9.0	(6.7)	9.0	(6.7)
Loan receivable receipts	17	-	-	0.2	-
Net changes in items of working capital	15	-	0.8	-	-
Net cash provided by (used in) financing activities		4.8	15.9	(2.4)	11.4
Effect of exchange rate changes		3.1	2.0	5.7	1.7
Net change in cash and cash equivalents		(4.1)	(1.2)	(15.7)	12.3
Cash and cash equivalents – Beginning of period		25.6	47.2	37.2	33.7
Cash and cash equivalents – End of period		21.5	46.0	21.5	46.0
Cash paid for:					
Interest		-	0.1	0.2	0.4
Income taxes		0.5	0.7	4.5	3.1

See accompanying notes to the consolidated interim financial statements

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

Unaudited - Canadian \$ Millions



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, equipment rental and other oilfield services to the oil and gas industry in Papua New Guinea and Canada.

As of September 30, 2015, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L. representing approximately 39.9% 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 short term investments which are accounted for as follows:

Short term investments

Available-for-sale financial assets

The Corporation's short term investments are designated as available for sale. Available-for-sale financial assets are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in Other Comprehensive Income (OCI), net of tax. Amounts recognized in OCI for available-for-sale financial assets are charged to earnings when the asset is derecognized or when there is a significant or prolonged decrease in the value of the asset.

Depreciation of drilling rigs

In 2015 the Corporation commenced drilling operations with a company-owned rig at which time the related capital costs began to be depreciated. Depreciation is on a straight line basis and is taken over periods from five to fifteen years based on the life expectancy of the various components of the rig.

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 and nine months ended September 30, 2015 were approved by the Board of Directors on November 12, 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

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

Unaudited - Canadian \$ Millions



establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is currently evaluating the impact of adopting IFRS 15 on the Financial Statements.

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

	September 30, 2015	December 31, 2014
Less than 31 days	27.4	16.7
31 to 60 days	1.3	3.9
61 to 90 days	0.7	0.2
Greater than 90 days	0.5	0.4
Allowance for doubtful accounts	(0.7)	(0.6)
Total	29.2	20.6
The Corporation's accounts receivable are denominated in the following currencies:		
Canadian dollar	5.2	7.0
United States dollar (2015 – US\$18.0; 2014 – US\$11.7)	24.0	13.6
Total	29.2	20.6

Included in accounts receivable at September 30, 2015 is a refundable amount of US\$3.5 million in respect of goods and services taxes paid in PNG upon the customs clearance of a rig in August, 2015. The funds will be used to offset taxes payable for the remainder of 2015 and early 2016.

6 Short Term Investments

High Arctic periodically invests in the common shares and debt instruments of certain publicly traded oil and gas service companies. As at September 30, 2015, the investments are presented at a fair value of \$12.4 million which is \$4.1 million less than the original cost. The difference in fair value has been charged to earnings as it has been determined to be a significant decrease in the value of the investments.

	September 30, 2015	December 31, 2014
Investments in equity securities	12.0	-
Investments in debt securities	0.4	-
Total	12.4	-

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

Unaudited - Canadian \$ Millions



7 Property and Equipment

On June 15, 2015 the Corporation commenced drilling operations with Rig 115 at which time the related capital costs began to be depreciated. Depreciation is on a straight line basis and is taken over periods from five to fifteen years based on the life expectancy of the various components of the rig. 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 nine months ended September 30, 2015.

Cost:	Light vehicles	Heavy trucks	Oilfield equipment	Computer hardware and office equipment	Land & Building	Work-in-progress	Total
Balance January 1, 2014	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
Additions	-	-	-	-	-	39.4	39.4
Disposals	(0.7)	-	(2.9)	(0.7)	-	-	(4.3)
Transfers	-	0.2	86.5	0.1	0.1	(86.9)	-
Effect of foreign exchange	-	-	20.2	-	-	0.2	20.4
Balance September 30, 2015	1.0	11.7	256.1	2.6	5.3	5.8	282.5

Accumulated amortization and impairments:	Light vehicles	Heavy trucks	Oilfield equipment	Computer hardware and office equipment	Land & Building	Work-in-progress	Total
Balance, January 1, 2014	1.0	9.1	81.3	2.2	-	-	93.6
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
Balance, December 31, 2014	1.2	8.1	95.2	2.5	0.1	-	107.1
Amortization for the period	0.2	0.3	9.9	0.3	0.1	-	10.8
Disposals	(0.6)	-	(2.4)	(0.6)	-	-	(3.6)
Effect of foreign exchange	-	-	5.7	-	-	-	5.7
Balance, September 30, 2015	0.8	8.4	108.4	2.2	0.2	-	120.0

Carrying amounts of property and equipment:

At December 31, 2014	0.5	3.4	57.1	0.7	5.1	53.1	119.9
At September 30, 2015	0.2	3.3	147.7	0.4	5.1	5.8	162.5

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

Unaudited - Canadian \$ Millions



Work-In-Progress

In July, 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 remained in work-in-progress until cleared by PNG customs.

8 Accounts Payable and Accrued Liabilities

	September 30, 2015	December 31, 2014
Accounts payable	17.3	9.3
Accrued liabilities	6.9	6.4
Accrued payroll	3.5	1.7
Total	27.7	17.4

9 Deferred Revenue

Pursuant to contracts related to the provision of drilling rigs, the Corporation has received \$2.5 million that will be recognized as revenue in future periods over the life of the related drilling contracts. The portion that will be recognized as revenue in the next twelve months has been disclosed as current (\$1.2 million) with the remaining \$1.3 million disclosed as a non-current liability.

10 Dividend Payable

Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. During the nine months ended September 30, 2015, the Corporation declared dividends of \$8.2 million (2014 - \$6.7 million), of which \$0.9 million was payable as of September 30, 2015 (December 31, 2014 - \$0.9 million). Since September 30, 2015, a monthly dividend of \$0.0165 per share has been declared for a total of \$0.9 million.

11 Long-Term Debt

As at September 30, 2015, the main components of the Corporation's available credit facilities are a \$40 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, 2017 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 September 30, 2015 \$9.0 million was drawn against the credit facility (December 31, 2014 - nil).

The available amount under the \$40 million revolving loan facility is limited to 65% of the net book value of the Canadian fixed assets plus 65% of the net book value of fixed assets in High Arctic Energy Services (Singapore) Pte. Ltd. limited to export guarantees provided by Export Development Canada ("EDC"), less priority claims. The amount available to draw under the \$5 million revolving operating loan is limited to 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement. At September 30, 2015, no guarantee had been executed with EDC and the total credit available to draw under the facility was approximately \$17.7 million (December 31, 2015 - \$29.2 million).

The credit facility 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.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

Unaudited - Canadian \$ Millions



The effective interest rate on the long-term debt was 4% on the balance outstanding in 2015 and for the year ended December 31, 2014.

12 Share Capital

(a) Share Capital

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

Issued:	Nine months ended September 30, 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 13)	77,800	0.2	567,060	1.4
Normal course issuer bid	(952,600)	(3.3)	-	-
Vested restricted shares (note 13)	41,700	0.1	14,000	-
Common shares outstanding, end of period	54,812,552	191.1	55,645,652	194.1
Restricted shares outstanding (note 13)	75,300	0.3	123,000	0.2
Total common and restricted shares outstanding	54,887,852	191.4	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 nine months ended September 30, 2015, 74,300 options were exercised (Year ended December 31, 2014 - 567,060) for shares of the Corporation (see Note 13).

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 September 30, 2015, 952,600 common shares had been purchased pursuant to the Bid at a total cost of \$3.5 million. Since then, an additional 280,383 common shares have been purchased to November 11, 2015 at a total cost of \$1.0 million.

(b) Per Share Amounts

The following tables summarize the weighted average number of common shares used in calculating basic and diluted earnings per share for the three and nine months ended September 30, 2015 and 2014. All potentially dilutive instruments such as options and the restricted shares issued under the Executive and Director Share Incentive Plan are considered.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

Unaudited - Canadian \$ Millions



	Nine months ended September 30, 2015		Nine months ended September 30, 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	55,168,808	\$0.40	50,200,636	\$0.39
Dilution effect of options	567,821	-	188,832	-
Weighted average number of common shares used in diluted earnings per share	55,736,629	\$0.40	50,389,468	\$0.39
	Three months ended September 30, 2015		Three months ended September 30, 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	54,965,237	\$0.18	54,037,625	\$0.07
Dilution effect of options	504,203	-	408,352	-
Weighted average number of common shares used in diluted earnings per share	55,469,440	\$0.18	54,445,977	\$0.07

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 5,488,785 options (being 10% of all outstanding shares) are available for grants. At September 30, 2015, a total of 3,210,400 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 150,000 options granted in 2015 vested immediately. The options have an average remaining contractual life of 3.3 years and 1,519,600 options are currently vested and eligible to be exercised.

	Number of Options	Weighted Average Exercise Price \$/Share
Total Outstanding January 1, 2014	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
Granted	150,000	3.64
Exercised	(77,800)	1.58
Forfeited	(108,900)	4.64
Total Outstanding September 30, 2015	3,210,400	3.66

The options exercised in 2015 had a weighted average market price of \$3.80 per share on the date of exercise.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 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	356,400	1.4	1.43	325,400	1.43
\$2.12 to \$2.83	763,000	2.7	2.52	470,000	2.50
\$3.39 to \$3.87	1,055,000	3.9	3.68	311,000	3.52
\$4.92 to \$5.32	1,036,000	3.8	5.26	413,200	5.26
Total Outstanding September 30, 2015	3,210,400	3.3	3.66	1,519,600	3.23

Share-based compensation is a non-cash item and is measured in accordance with a prescribed formula. Share-based compensation expense recognized by the Corporation for the Stock Option Plan for the nine months ended September 30, 2015 was \$1.1 million (2014 - \$0.9 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
Average fair value per option granted	0.71	1.51
Average expected life (years)	3.0	3.0
Expected volatility (%)	41	48
Expected forfeiture rate (%)	0	21
Average risk-free interest rate (%)	0.46	1.08
Expected distribution yield (%)	5.2	3.4

Share Incentive Plan

In 2010, the shareholders approved an Executive and Director Share Incentive Plan (the "EDSIP"). The maximum number of common shares initially available for issuance by the Corporation under the EDSIP was 7,578,444 common shares of which 113,444 common shares remain available for issue at September 30, 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. The following common shares have been issued under the EDSIP since its inception:

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

Unaudited - Canadian \$ Millions



Date of Issuance	Number of Shares Granted	Number of Shares Forfeited	Compensation per share	Unvested Shares outstanding September 30, 2015
September, 2010	7,100,000	840,000	\$0.825	-
March, 2011	200,000		\$1.05	-
July, 2012	40,000	26,000	\$1.60	-
April, 2013	20,000	-	\$2.35	6,000
August, 2014	105,000	-	\$5.29	69,300
Total	7,465,000	866,000		75,300

For the nine months ended September 30, 2015, the Corporation incurred share based compensation expense of \$0.2 million (2014- \$0.1 million) related to the EDSIP and an amount of up to \$0.2 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 Share 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 nine months ended September 30, 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 \$0.1 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.

14 Expenses

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Oilfield services expenses by nature:				
Personnel costs and personnel related costs	14.4	11.3	40.2	33.2
Drilling rig and other rental costs	11.6	9.7	33.6	27.6
Material and supplies cost	8.1	5.0	18.2	12.8
Equipment operating and maintenance costs	1.9	2.1	5.4	6.5
Other	0.4	0.3	0.8	0.7
Total	36.4	28.4	98.2	80.8

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	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
General and administrative expenses by nature:				
Personnel costs and personnel related costs	2.3	1.5	7.1	5.5
Facility costs	0.3	0.5	1.1	1.0
Professional, legal and consulting fees	0.2	0.1	0.7	0.7
Leases	0.3	0.1	0.8	0.4
Other	0.3	0.9	0.8	1.2
Total	3.4	3.1	10.5	8.8

15 Supplemental Cash Flow Information

Changes in non-cash working capital is comprised of:

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Accounts receivable	(10.7)	1.2	(6.1)	6.7
Inventories	(2.2)	(0.6)	(2.2)	(0.9)
Prepaid expenses and deposits	0.3	7.6	(0.2)	(0.4)
Accounts payable and accrued liabilities	4.1	1.9	8.0	2.5
Deferred revenues	(0.4)	-	1.7	-
Income taxes payable	1.4	0.5	2.5	1.3
Total changes in non-cash working capital	(7.5)	10.6	3.7	9.2
Related to:				
Operating activities	(6.1)	3.3	6.8	9.2
Investing activities	(1.4)	6.5	(3.1)	-
Financing activities	-	0.8	-	-
	(7.5)	10.6	3.7	9.2

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16 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 September 30, 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

17 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 of (i) thirty days after the date that a Borrower ceases to be an employee of the Corporation and (ii) August 15, 2017. As at September 30, 2015, the amount outstanding related to these loans was less than \$0.1 million.

18 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 does not believe that a material loss is probable.

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

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19 Capital Disclosures

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

	September 30, 2015	December 31, 2014
Shareholders' equity	191.9	165.6
Total long-term debt	9.0	-
Cash and cash equivalents	(21.5)	(37.2)
Total Capitalization	179.4	128.4

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 three 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 credit facility agreement that have no prescribed meaning under IFRS. The Corporation remains in compliance with all financial covenants under its credit facility agreement.

20 Financial Instruments and Risk Management

Fair Value of Financial Assets and Liabilities

Cash and cash equivalents and accounts receivable are designated as loans and receivables and recorded at amortized cost, which approximates fair value due to the short-term nature of the instruments. Short term investments are designated as assets available for sale financial assets and are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in Other Comprehensive Income (OCI), net of tax. Available for sale assets comprise listed Canadian public investments. These assets are carried at fair value on the Consolidated Statements of Financial Position. Fair value is determined by quoted prices in active markets for identical assets (Level 1). Accounts payable and accrued liabilities and the long term debt are designated as other liabilities and are recorded at amortized cost.

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, commodity prices and other price risk.

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

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facility and fluctuates in response to changes in the prime interest rates. For the three months ended September 30, 2015 a one percent change in interest rates on the loan facility would have resulted in a change in interest expense and earnings of less than \$0.1 million (2014 – less than \$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 nine months ended September 30, 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 approximately \$0.2 million (2014 – \$0.2 million) in net earnings for the period as a result of changes in foreign exchange.

Other Price Risk

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

Credit Risk and Customers

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

The Corporation's accounts receivable are predominantly with customers who explore for and develop petroleum reserves and are subject to normal industry credit risks. The Corporation assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding.

The Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation provides services to two significant customers in Papua New Guinea. One customer represents approximately 33% of the Corporation's revenue for the nine months ended September 30, 2015 (2014 – 33%) and 14% of its accounts receivable at that date (2014 - 31%). The second customer represents approximately 48% of the Corporation's revenue for the nine months ended September 30, 2015 (2014 – 29%) and 26% 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.

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The following are the contractual maturities of financial liabilities in their future fair value amounts:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
September 30, 2015					
Accounts payable	27.7	-	-	-	27.7
Dividends payable	0.9	-	-	-	0.9
Long-term debt ⁽¹⁾	0.3	9.3	-	-	9.6
Total	28.9	9.3	-	-	38.2
December 31, 2014					
Accounts payable	17.4	-	-	-	17.4
Dividends payable	0.9	-	-	-	0.9
Total	18.3	-	-	-	18.3

⁽¹⁾ Interest payments required on the outstanding long-term debt (see Note 11) are estimated based on an assumed static prime rate of interest.

21 Commitments

Lease Obligations

The Corporation has entered into long-term premise leases for operating facilities. These leases are operating leases and the remaining length of the lease terms are up to five years. All the premise leases have renewal terms which allow the Corporation to renew the lease for various lengths at the market rates negotiated at the time of renewal.

The minimum lease payments for the next five years as at September 30, 2015 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	1.0	1.6	0.2	-	2.8
Total lease commitments	1.0	1.6	0.2	-	2.8

Property and Equipment Expenditures

The total anticipated property and equipment expenditures remaining to be incurred to meet certain contractual obligations with our customers and others is approximately \$3.4 million.

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22 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:

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Revenue				
Papua New Guinea	50.2	31.4	127.7	92.7
Canada	8.3	9.9	24.2	32.9
Total	58.5	41.3	151.9	125.6

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

	September 30, 2015	December 31, 2014
Current assets		
Canada	24.5	40.9
Papua New Guinea	47.5	22.7
	72.0	63.6
Non-current assets		
Canada	40.0	42.5
Papua New Guinea	127.7	82.6
	167.7	125.1
Total assets	239.7	188.7
Liabilities		
Canada	13.1	5.6
Papua New Guinea	34.7	17.5
Total liabilities	47.8	23.1

The segment presentation of non-current assets is based on the geographic location of the assets.