

# **HIGH ARCTIC ENERGY SERVICES INC.**



## **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED  
MARCH 31, 2016**

# High Arctic Energy Services Inc.

## Consolidated Statements of Financial Position

As at March 31, 2016, December 31, 2015 and January 1, 2015

Unaudited - Canadian \$ Millions

	Notes	March 31 2016	December 31, 2015 (note 3)	January 1 2015 (note 3)
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		20.5	15.5	37.2
Accounts receivable	4	35.0	42.4	20.6
Short term investments	5	11.9	10.6	-
Inventories		8.1	8.0	5.0
Prepaid expenses		0.4	0.9	0.8
		<u>75.9</u>	<u>77.4</u>	<u>63.6</u>
<b>Non-current assets</b>				
Property and equipment	6	155.7	161.7	119.9
Deferred tax asset		5.0	5.0	5.0
Loans due from related parties		-	-	0.2
		<u>-</u>	<u>-</u>	<u>0.2</u>
<b>Total assets</b>		<b><u>236.6</u></b>	<b><u>244.1</u></b>	<b><u>188.7</u></b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	7	17.7	23.6	17.4
Capital lease obligation	8	2.2	-	-
Current portion of deferred revenue	9	2.1	2.2	0.2
Income taxes payable		8.9	7.5	3.5
Dividend payable	10	0.9	0.9	0.9
		<u>31.8</u>	<u>34.2</u>	<u>22.0</u>
<b>Non-current liabilities</b>				
Deferred revenue	9	1.9	2.6	0.4
Long-term debt	11	-	4.0	-
Deferred tax liability		3.3	2.1	0.7
		<u>3.3</u>	<u>2.1</u>	<u>0.7</u>
<b>Total liabilities</b>		<b><u>37.0</u></b>	<b><u>42.9</u></b>	<b><u>23.1</u></b>
<b>Shareholders' equity</b>	12	<b><u>199.6</u></b>	<b><u>201.2</u></b>	<b><u>165.6</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>236.6</u></b>	<b><u>244.1</u></b>	<b><u>188.7</u></b>
Contingencies and commitments	16			

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 three months ended March 31, 2016 and 2015

Unaudited - Canadian \$ Millions, except per share amounts

		2016	2015
	<b>Notes</b>		
<b>Revenue</b>	19	54.7	44.7
<b>Expenses</b>			
Oilfield services	14	29.2	30.7
General and administration	14	3.7	3.6
Amortization	6	5.8	2.9
Share-based compensation	13	0.3	0.6
Total expenses		39.0	37.8
<b>Operating earnings</b>		<b>15.7</b>	<b>6.9</b>
Foreign exchange loss		0.3	0.3
Gain on sales of property and equipment		(0.1)	-
Interest and finance expense		0.1	0.1
<b>Net earnings before income taxes</b>		<b>15.4</b>	<b>6.5</b>
Current income tax expense		2.8	1.8
Deferred income tax expense (recovery)		1.4	(0.1)
<b>Net earnings for the period</b>		<b>11.2</b>	<b>4.8</b>
<b>Earnings per share:</b>	12		
Basic		0.21	0.09
Diluted		0.21	0.09
		<b>2016</b>	<b>2015</b>
<b>Net earnings for the period</b>		11.2	4.8
<b>Other comprehensive income (loss):</b>			
<b>Items that may be reclassified subsequently to net income:</b>			
Foreign currency translation gains (losses) for foreign operations		(9.4)	10.8
<b>Items that may not be reclassified subsequently to net income:</b>			
Gains on short term investments, net of tax (note 5)		1.3	-
<b>Comprehensive income for the period</b>		<b>3.1</b>	<b>15.6</b>

See accompanying notes to these consolidated financial statements.

**High Arctic Energy Services Inc.**  
**Consolidated Statements of Changes in Equity**  
For the three months ended March 31, 2016 and 2015  
Unaudited - Canadian \$ Millions

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained deficit	Total shareholders' equity
<b>Balance at January 1, 2016 as previously reported</b>		189.7	9.4	34.5	(32.4)	201.2
Cumulative effect of change in accounting policy	3	-	-	(4.8)	4.8	-
<b>Balance at January 1, 2016, Restated</b>		189.7	9.4	29.7	(27.6)	201.2
Net earnings		-	-	-	11.2	11.2
Dividends	10	-	-	-	(2.6)	(2.6)
Other comprehensive income - foreign currency translation loss		-	-	(9.4)	-	(9.4)
Other comprehensive income – gain on assets held for sale	5	-	-	1.3	-	1.3
Purchase of common shares for cancellation	12	(2.6)	0.2	-	-	(2.4)
Share-based payment transactions		0.4	(0.1)	-	-	0.3
<b>Balance at March 31, 2016</b>		<b>187.5</b>	<b>9.5</b>	<b>21.6</b>	<b>(19.0)</b>	<b>199.6</b>

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained deficit	Total shareholders' 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	10	-	-	-	(2.7)	(2.7)
Other comprehensive income - foreign currency translation gain		-	-	10.8	-	10.8
Purchase of common shares for cancellation	12	(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>

See accompanying notes to these consolidated financial statements.

# High Arctic Energy Services Inc.

## Consolidated Statements of Cash Flows

For the three months ended March 31, 2016 and 2015

Unaudited - Canadian \$ Millions

	Notes	2016	2015
<b>Net earnings for the period</b>		11.2	4.8
Adjustments for:			
Amortization	6	5.8	2.9
Share-based compensation	13	0.3	0.6
Foreign exchange loss		0.3	-
Gain on sale of property and equipment		(0.1)	-
Deferred income tax expense (recovery)		1.4	(0.1)
		<u>18.9</u>	<u>8.2</u>
Net changes in items of working capital	15	2.2	4.9
<b>Net cash generated from operating activities</b>		<u>21.1</u>	<u>13.1</u>
<b>Investing activities</b>			
Additions of property and equipment	6	(5.1)	(21.1)
Disposal of property and equipment	6	-	0.1
Net changes in items of working capital	15	-	0.3
<b>Net cash used in investing activities</b>		<u>(5.1)</u>	<u>(20.7)</u>
<b>Financing activities</b>			
Long-term debt repayment	11	(4.0)	-
Dividend payments	10	(2.6)	(2.7)
Purchase of common shares for cancellation	12	(2.4)	(1.7)
Issuance of common shares, net of costs	12	0.2	-
Capital lease obligation payments	8	(0.3)	-
Loan receivable receipts		-	0.1
<b>Net cash used in financing activities</b>		<u>(9.1)</u>	<u>(4.3)</u>
<b>Effect of exchange rate changes</b>		<u>(1.9)</u>	<u>3.1</u>
<b>Net change in cash and cash equivalents</b>		<u>5.0</u>	<u>(8.8)</u>
<b>Cash and cash equivalents – beginning of period</b>		<u>15.5</u>	<u>37.2</u>
<b>Cash and cash equivalents – end of period</b>		<u>20.5</u>	<u>28.4</u>
<b>Cash paid for:</b>			
Interest		0.1	0.1
Income taxes		1.4	0.3

See accompanying notes to these consolidated financial statements.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Canadian \$ Million)

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### 1 Nature of Business

High Arctic Energy Services Inc. ("High Arctic" or "the Corporation") is incorporated under the laws of Alberta, Canada and is a publicly traded Corporation listed on the Toronto Stock Exchange under the symbol "HWO". The head office of the Corporation is located at 444 – 5<sup>th</sup> Avenue S.W. Suite 2010, Calgary, Alberta, Canada, T2P 2T8. High Arctic's principal focus is to provide contract drilling, completion services, equipment rental and other oilfield services to the oil and gas industry in Papua New Guinea and Canada.

### 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 should be read in conjunction with High Arctic's consolidated financial statements for the year ended December 31, 2015 wherein the Corporation's significant accounting policies were presented in Note 3. The significant accounting policies have been consistently applied in the preparation of these Financial Statements except for Note 3 Changes in Accounting Policies - "Impact of Adoption of IFRS 9".

The Financial Statements of High Arctic for the three months ended March 31, 2016 were approved by the Board of Directors on May 13, 2016.

### 3 Changes in Accounting Policies

#### Impact of Adoption of IFRS 9

As disclosed in the December 31, 2015 consolidated financial statements, the Corporation has early adopted, as of January 1, 2016, all of the requirements of IFRS 9, *Financial Instruments*, as amended in July 2014 ("IFRS 9"). The Corporation elected to apply the standard retrospectively including the restatement of comparative figures.

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 which has introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Financial Statements of the Corporation.

The early adoption of IFRS 9 has been applied retrospectively and did not result in a change in the carrying value of any of High Arctic's financial instruments on transition date. The main area of change is the accounting for equity securities previously classified as available for sale. The revised policy of accounting for short term investments resulted in an decrease to retained deficit on December 31, 2015 of \$4.8 million with a corresponding decrease to accumulated other comprehensive income and no impact on the earliest comparative period presented and restated (January 1, 2015). There was no impact on net earnings for the three months ended March 31, 2016.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Canadian \$ Million)

The effect on the Consolidated Statement of Financial Position was as follows:

	Accumulated other comprehensive income	Retained deficit	Total shareholders' equity
<b>As at December 31, 2015</b>			
<b>Balance as previously reported</b>	<b>34.5</b>	<b>(32.4)</b>	<b>201.2</b>
Effect of adoption of IFRS 9	(4.8)	4.8	-
<b>Restated balance</b>	<b>29.7</b>	<b>(27.6)</b>	<b>201.2</b>

The effect on the Consolidated Statement of Earnings and Comprehensive Income was as follows:

	Year ended December 31, 2015
Decrease in loss on short term investments, net of taxes	(4.8)
Increase in net earnings for the year	4.8
<b>Effect on Comprehensive income for the year</b>	<b>-</b>

The effect on earnings per share was as follows:

	Year ended December 31, 2015
<b>Balance as previously reported</b>	
- Basic	0.49
- Diluted	0.48
Effect of adoption of IFRS 9	
- Basic	0.09
- Diluted	0.09
<b>Restated balance</b>	
- Basic	0.58
- Diluted	0.57

The effect on the Consolidated Statement of Cash Flows was as follows:

	Year ended December 31, 2015
Increase in net earnings for the year	4.8
Decrease in unrealized loss on short term investments	(4.8)
<b>Effect on net cash generated from operating activities</b>	<b>-</b>

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Canadian \$ Million)

### Additional disclosures

Details about the Corporation's short term investments can be found in the notes to the consolidated financial statements as at December 31, 2015. Additional and restated disclosures as at December 31, 2015, as required by IFRS 9 are as follows:

High Arctic periodically invests in the common shares and debt instruments of certain publicly traded oil and gas service companies. As at December 31, 2015, the investments are presented at a fair value of \$10.6 million which is \$5.9 million less than the original cost. The difference in fair value of \$5.9 million has been charged to other comprehensive income. Short term investments consist of the following:

	December 31, 2015
Investments in equity securities	10.2
Investments in debt securities	0.4
<b>Total</b>	<b>10.6</b>

### Initial measurement of financial instruments

The Corporation classifies and measures financial assets and liabilities on initial recognition as described below:

- a) **Cash and cash equivalents**  
Cash and cash equivalents include cash and term deposits and are classified as financial assets at fair value through profit or loss. Cash and cash equivalents are measured at fair value and unrealized gains or losses related to changes in fair value are reported in income.
- b) **Trade and other receivables**  
Trade and other receivables are classified as assets at amortized cost and are measured using the effective interest method, less impairment allowance, if any where the financial assets are supported by the Corporation's business model to hold to collect and where the financial assets are considered to consist solely of payments of principle and interest.
- c) **Equity investments**  
The Corporation's short term investments are designated as financial assets at fair value through other comprehensive income and are initially recognized at fair value on the settlement date, net of directly attributable transaction costs. Future changes in fair value are recognized in other comprehensive Income (OCI), net of tax and are not recycled into income.

There is no longer a requirement to assess impairment going forward on equity investments. Dividends from such investments continue to be recognized in profit or loss as other income when the Corporation's right to receive payments is established.

- d) **Financial liabilities**  
Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and since we do not have any financial liabilities designated at fair value through profit or loss, the adoption of IFRS 9 did not impact our accounting policies for financial liabilities.



# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Canadian \$ Million)

### 4 Accounts Receivable

The Corporation applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses below also incorporate forward looking information.

	March 31, 2016	December 31, 2015
Less than 31 days	23.6	23.8
31 to 60 days	10.6	12.6
61 to 90 days	1.1	5.1
Greater than 90 days	0.3	1.6
Loss allowance provision	(0.6)	(0.7)
<b>Total</b>	<b>35.0</b>	<b>42.4</b>

The Corporation's accounts receivable are denominated in the following currencies:

Canadian dollar	3.4	4.6
United States dollar (2016 – US\$24.3; 2015 – US\$27.3)	31.6	37.8
<b>Total</b>	<b>35.0</b>	<b>42.4</b>

### 5 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 March 31, 2016, the investments are presented at a fair value of \$11.9 million (December 31, 2015 - \$10.6 million) which is \$4.6 million (December 31, 2015 - \$5.9 million) less than the original cost. The difference in fair value of \$4.6 million has been charged to other comprehensive income. Short term investments consist of the following:

	March 31, 2016	December 31, 2015
Investments in equity securities	11.5	10.2
Investments in debt securities	0.4	0.4
<b>Total</b>	<b>11.9</b>	<b>10.6</b>

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Canadian \$ Million)

### 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, 2015 and the three months ended March 31, 2016.

<b>Cost:</b>	<b>Vehicles</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, 2015</b>	<b>13.2</b>	<b>152.3</b>	<b>3.2</b>	<b>5.2</b>	<b>53.1</b>	<b>227.0</b>
Additions	-	3.4	-	0.1	36.5	40.0
Disposals	(0.8)	(2.9)	(0.8)	-	-	(4.5)
Transfers	0.3	88.5	0.3	-	(89.1)	-
Effect of foreign exchange	-	26.9	-	-	-	26.9
<b>Balance December 31, 2015</b>	<b>12.7</b>	<b>268.2</b>	<b>2.7</b>	<b>5.3</b>	<b>0.5</b>	<b>289.4</b>
Additions	-	2.2	-	-	3.5	5.7
Equipment under finance lease (see note 8)	-	-	-	-	2.5	2.5
Disposals	(0.3)	(2.3)	-	-	-	(2.6)
Transfers	0.1	0.5	-	-	(0.6)	-
Effect of foreign exchange	(0.1)	(11.2)	-	-	(0.1)	(11.4)
<b>Balance March 31, 2016</b>	<b>12.4</b>	<b>257.4</b>	<b>2.7</b>	<b>5.3</b>	<b>5.8</b>	<b>283.6</b>

<b>Accumulated amortization and impairments:</b>	<b>Vehicles</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, 2015</b>	<b>9.3</b>	<b>95.2</b>	<b>2.5</b>	<b>0.1</b>	-	<b>107.1</b>
Amortization for the year	0.7	15.5	0.4	0.1	-	16.7
Disposals	(0.7)	(2.4)	(0.7)	-	-	(3.8)
Effect of foreign exchange	-	7.7	-	-	-	7.7
<b>Balance, December 31, 2015</b>	<b>9.3</b>	<b>116.0</b>	<b>2.2</b>	<b>0.2</b>	-	<b>127.7</b>
Amortization for the period	-	5.6	0.1	0.1	-	5.8
Disposals	(0.3)	(1.8)	-	-	-	(2.1)
Effect of foreign exchange	-	(3.5)	-	-	-	(3.5)
<b>Balance, March 31, 2016</b>	<b>9.0</b>	<b>116.3</b>	<b>2.3</b>	<b>0.3</b>	-	<b>127.9</b>

#### Carrying amounts of property and equipment:

At December 31, 2015	<b>3.4</b>	<b>152.2</b>	<b>0.5</b>	<b>5.1</b>	<b>0.5</b>	<b>161.7</b>
<b>At March 31, 2016</b>	<b>3.4</b>	<b>141.1</b>	<b>0.4</b>	<b>5.0</b>	<b>5.8</b>	<b>155.7</b>

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Canadian \$ Million)

### 7 Accounts Payable and Accrued Liabilities

	March 31, 2016	December 31, 2015
Accounts payable	8.7	13.5
Accrued liabilities	5.4	7.0
Accrued payroll	3.6	3.1
<b>Total</b>	<b>17.7</b>	<b>23.6</b>

### 8 Equipment Lease Obligation

During the first three months of 2016, the Corporation received certain equipment under a finance lease. The fair value of the equipment of \$2.5 million has been included with property and equipment with a corresponding lease obligation liability that is reduced by the principal portion of the monthly payments related to the principal of the lease. As at March 31, 2016 future minimum payments related to this lease totaled \$2.4 million (including the expected exercise of this option) and are all due within one year. These future lease payments include an amount of \$0.2 million representing interest, and as at March 31, 2016 the remaining obligation related to the lease was \$2.2 million.

### 9 Deferred Revenue

Pursuant to contracts related to the provision of drilling rigs, the Corporation has received payments that will be recognized as revenue in future periods over the life of the related drilling contracts. As at March 31, 2016, \$2.1 million (December 31, 2015 - \$2.2 million) will be recognized as revenue in the next twelve months and has been disclosed as a current liability with the remaining \$1.9 million (December 31, 2015 - \$2.6 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 three months ended March 31, 2016, the Corporation declared dividends of \$2.6 million (2015 - \$2.7 million), of which \$0.9 million was payable as of March 31, 2016 (December 31, 2015 - \$0.9 million). Since March 31, 2016, a monthly dividend of \$0.0165 per share has been declared for a total of \$0.9 million.

### 11 Long-Term Debt

As at March 31, 2016, the main components of the Corporation's available credit facilities are a \$40.0 million revolving loan and a \$5.0 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. Security for outstanding long-term debt includes all of the assets of the Canadian parent and guarantees given by its material foreign subsidiaries. As of March 31, 2016 there was no outstanding amount drawn on the facility. In April, 2016 the Corporation had drawn against the credit facility and as at the date of these financial statements on May 12, 2016, the outstanding balance on the facility was \$2.3 million.

The available amount under the \$40.0 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 \$5.0 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 March 31, 2016, no guarantee had been executed with

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Canadian \$ Million)

EDC and the total credit available to draw under the facility was approximately \$25.0 million (December 31, 2015 - \$21.5 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. The effective interest rate on the long-term debt was 3.5% on the balance outstanding in 2016 (2015 - 4.0%).

The Corporation remains in compliance with all financial covenants under its credit facility agreement.

## 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:	Three months ended March 31, 2016		Year ended December 31, 2015	
	Shares	\$	Shares	\$
Balance, beginning of period	54,330,169	189.5	55,645,652	194.1
Issuance of shares upon exercise of options (note 13)	90,300	0.3	208,800	0.7
Normal course issuer bid	(734,600)	(2.6)	(1,569,983)	(5.5)
Vested restricted shares (note 13)	-	-	45,700	0.2
Common shares outstanding	53,685,869	187.2	54,330,169	189.5
Restricted shares outstanding (note 13)	58,800	0.3	58,800	0.2
Total common and restricted shares outstanding	53,744,669	187.5	54,388,969	189.7

### Issuance of Shares

For the three months ended March 31, 2016, a total of 90,300 (year ended December 31, 2015 - 208,800) stock options were exercised 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 Normal Course Issuer Bid ("the Bid"). The Bid commenced on January 12, 2015 and was valid for one year. As of December 31, 2015, 1,569,983 common shares had been purchased and cancelled pursuant to the Bid at a total cost of \$5.7 million. An additional 65,600 common shares were purchased in January, 2016 prior to the conclusion of the one year period.

In January, 2016, the Corporation received approval from the Toronto Stock Exchange to renew the Bid for a one year period. As of March 31, 2016, 669,000 common shares had been purchased and cancelled at a total cost of \$1.6 million pursuant to the renewal. Between March 31, 2016 and May 12, 2016, an additional 1,166,800 common shares had been purchased at a cost of \$4.1 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.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Canadian \$ Million)

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings per share	53,973,560	\$0.21	55,233,295	\$0.09
Dilution effect of options	241,109	-	531,773	-
Weighted average number of common shares used in diluted earnings per share	54,214,669	\$0.21	55,765,068	\$0.09

For the three months ended March 31, 2016, 3,079,991 stock options (2015 – 2,799,827) were excluded from the calculation of diluted earnings per share as the effect would have been anti-dilutive.

### 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 certain employees. A total of 5,374,466 options (being 10% of all outstanding shares) are available for grants. At March 31, 2016, a total of 3,321,100 options are outstanding and expire at various dates up to 2021, at amounts that range from \$1.28 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 3.3 years and 1,751,100 options are currently vested and eligible to be exercised.

	Number of Options	Weighted Average Exercise Price \$/Share
<b>Total Outstanding January 1, 2015</b>	3,247,100	3.65
Granted	614,000	3.67
Exercised	(208,800)	2.08
Forfeited	(112,400)	4.75
Expired	(7,700)	3.90
<b>Total Outstanding December 31, 2015</b>	<b>3,532,200</b>	<b>3.71</b>
Granted	150,000	3.46
Exercised <sup>(1)</sup>	(340,300)	2.17
Forfeited	(20,800)	5.00
<b>Total Outstanding March 31, 2016</b>	<b>3,321,100</b>	<b>3.84</b>

The options exercised in 2016 had a weighted average market price of \$3.34 per share on the date of exercise.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Canadian \$ Million)

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 (\$)
\$1.28 to \$1.74	314,100	0.9	1.42	314,100	1.42
\$2.43 to \$2.83	334,000	2.6	2.80	256,000	2.79
\$3.24 to \$3.87	1,665,000	3.9	3.66	779,000	3.59
\$4.92 to \$5.32	1,008,000	3.3	5.26	402,000	5.26
<b>Total Outstanding</b>					
<b>March 31, 2016</b>	<b>3,321,100</b>	<b>3.3</b>	<b>3.84</b>	<b>1,751,100</b>	<b>3.47</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, 2016 was \$0.2 million (2015 - \$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:

Period of Grant	Three months ended March 31, 2016	Three months ended March 31, 2015
Average fair value per option granted	0.59	0.71
Average expected life (years)	3.0	3.0
Expected volatility (%)	37	41
Expected forfeiture rate (%)	0	0
Average risk-free interest rate (%)	0.48	0.46
Expected distribution yield (%)	5.7	5.2

### Share Incentive Plan

During the three months ended March 31, 2016, there were no changes in the shares issued under the EDSIP.

For the three months ended March 31, 2016, the Corporation incurred share based compensation expense of \$0.1 million (2015- \$0.1 million) related to the EDSIP and an amount of up to \$0.1 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 with the expense adjusted when actual forfeitures occur.

### Restricted Shares Units

For the three months ended March 31, 2016, the Corporation incurred no share based compensation expense (2015 -\$0.1 million) 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.

# High Arctic Energy Services Inc.

Notes to the Consolidated Financial Statements  
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(Canadian \$ Million)

## 14 Expenses

<b>Oilfield services expenses by nature</b>	<b>Three months ended March 31, 2016</b>	<b>Three months ended March 31, 2015</b>
Personnel costs and personnel related costs	12.7	13.2
Drilling rig rental cost	8.9	11.0
Material and supplies cost	5.6	4.4
Equipment operating and maintenance costs	1.7	1.9
Other	0.3	0.2
<b>Total</b>	<b>29.2</b>	<b>30.7</b>

  

<b>General and administrative expenses by nature</b>	<b>Three months ended March 31, 2016</b>	<b>Three months ended March 31, 2015</b>
Personnel costs and personnel related costs	2.4	2.4
Professional, legal and consulting fees	0.3	0.3
Facility costs	0.4	0.4
Leases	0.3	0.2
Other	0.3	0.3
<b>Total</b>	<b>3.7</b>	<b>3.6</b>

## 15 Supplemental Cash Flow Information

Changes in non-cash working capital is comprised of:

	<b>Note</b>	<b>Three months ended March 31, 2016</b>	<b>Three months ended March 31, 2015</b>
Accounts receivable	4	5.8	(1.0)
Inventory and prepaid expenses		(0.1)	0.7
Accounts payable and accrued liabilities	7	(4.9)	4.3
Income taxes payable		2.0	1.2
Deferred revenues	9	(0.6)	-
<b>Total</b>		<b>2.2</b>	<b>5.2</b>
<b>Related to:</b>			
<b>Operating activities</b>		<b>2.2</b>	<b>4.9</b>
<b>Investing activities</b>		<b>-</b>	<b>0.3</b>
		<b>2.2</b>	<b>5.2</b>

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Canadian \$ Million)

### 16 Contingent Liabilities and Commitments

#### 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 amount of 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 and additional third party notices have been filed against the Corporation, 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 and third parties claim damages in the amount of \$22.0 million. It is not possible at this time to estimate the outcome of the lawsuit and related third party notices. The Corporation denies the allegations and has filed a statement of defence in March 2015 relating to the lawsuit as well as three related statements of defence in February 2016 pertaining to the third party notices. The Corporation believes that an ultimate liability arising from these matters is not probable to have a material effect on the Financial Statements and no amounts have been recorded for any potential liability arising from this matter.

#### Operating Lease Commitments

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, 2016 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	0.9	0.9	0.5	-	2.3
<b>Total lease commitments</b>	<b>0.9</b>	<b>0.9</b>	<b>0.5</b>	<b>-</b>	<b>2.3</b>

### 17 Capital Disclosures

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

	March 31, 2016	December 31, 2015
Shareholders' equity	199.6	201.2
Total long-term debt	-	4.0
Cash and cash equivalents	(21.1)	(15.5)
<b>Total Capitalization</b>	<b>178.5</b>	<b>189.7</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.



# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Canadian \$ Million)

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### 18 Financial Instruments and Risk Management

#### **Fair Value of Financial Assets and Liabilities**

Cash and cash equivalents include cash and term deposits and are classified as financial assets at fair value through profit or loss. Cash and cash equivalents are measured at fair value and unrealized gains or losses related to changes in fair value are reported in income. Accounts receivable, prepaid expenses and other receivables are classified as assets at amortized cost using the effective interest method, less impairment allowance, if any. 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's short term investments are designated as financial assets at fair value through other comprehensive income and are initially recognized at fair value on the settlement date, net of directly attributable transaction costs. Future changes in fair value are recognized in other comprehensive income (OCI), net of tax and are not recycled into income. Financial assets at fair value comprise listed Canadian public company 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 and commodity prices.

#### **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 where changes in quoted prices on investments in equity securities impact the underlying value of investments.

#### **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, 2016 a one percent change in interest rates on the loan facility would not have been material.

#### **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, 2016, a \$0.01 change in the value of the Canadian dollar relative to the U.S. dollar would not have been material.

#### **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.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Canadian \$ Million)

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 three large multinational/regional customers in Papua New Guinea. One customer represents approximately 20% of the Corporation's revenue for the three months ended March 31, 2016 (year ended December 31, 2015 – 47%) and 28% of its accounts receivable at that date (December 31, 2015 - 45%). The second customer represents approximately 33% of the Corporation's revenue for the three months ended March 31, 2016 (year ended December 31, 2015 – 30%) and 12% of its accounts receivable at that date (December 31, 2015 – 15%). A third significant customer represents approximately 26% of the Corporation's revenue for the three months ended March 31, 2016 (December 31, 2016 – 4%) and 25% of the Corporation's accounts receivable at that date (December 31, 2015 – 21%). Management has assessed the three customers as creditworthy and the Corporation has had no history of collection issues with these customers.

### Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, the authorization of contractual agreements and the capacity available under the loan facility. 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:

<b>March 31, 2016</b>	<b>Beyond 5</b>				<b>Total</b>
	<b>1 Year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>Years</b>	
Accounts payable	17.7	-	-	-	17.7
Lease obligation payable	2.2	-	-	-	2.2
Dividends payable	0.9	-	-	-	0.9
<b>Total</b>	<b>20.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20.8</b>

  

<b>December 31, 2015</b>	<b>Beyond 5</b>				<b>Total</b>
	<b>1 Year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>Years</b>	
Accounts payable	23.6	-	-	-	23.6
Dividends payable	0.9	-	-	-	0.9
Long term debt <sup>(1)</sup>	0.2	4.1	-	-	4.3
<b>Total</b>	<b>24.7</b>	<b>4.1</b>	<b>-</b>	<b>-</b>	<b>28.8</b>

<sup>(1)</sup> Long term debt includes future expected interest payments.

# High Arctic Energy Services Inc.

## Notes to the Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Canadian \$ Million)

### 19 Operating Segment

The Corporation determines its operating segment based on internal information reviewed by the Board of Directors 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, 2016</b>	<b>Three months ended March 31, 2015</b>
<b>Revenue</b>		
Papua New Guinea	48.2	35.2
Canada	6.5	9.5
<b>Total</b>	<b>54.7</b>	<b>44.7</b>

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

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Current assets</b>		
Papua New Guinea	56.1	54.9
Canada	19.8	22.5
	<b>75.9</b>	<b>77.4</b>
<b>Non-current assets</b>		
Papua New Guinea	118.9	127.7
Canada	41.8	39.0
	<b>160.7</b>	<b>166.7</b>
<b>Total assets</b>	<b>236.6</b>	<b>244.1</b>
<b>Liabilities</b>		
Papua New Guinea	31.0	34.9
Canada	6.0	8.0
<b>Total liabilities</b>	<b>37.0</b>	<b>42.9</b>