

HIGH ARCTIC ENERGY SERVICES INC.



CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013



March 14, 2014

Independent Auditor's Report

To the Shareholders of High Arctic Energy Services Inc.

We have audited the accompanying consolidated financial statements of High Arctic Energy Services Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of High Arctic Energy Services Inc. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

High Arctic Energy Services Inc.
Consolidated Statements of Financial Position
As at December 31, 2013 and 2012
(Canadian \$ Million)

	Notes	December 31, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		33.7	27.4
Accounts receivable	7	21.9	19.0
Inventories		3.7	3.6
Prepaid expenses		0.7	0.7
Income tax receivable		-	1.5
		<u>60.0</u>	<u>52.2</u>
Non-current assets			
Property and equipment	8	72.1	61.3
Deferred tax asset	15	5.0	5.0
Loans due from related parties	20	-	0.4
		<u>-</u>	<u>0.4</u>
Total assets		<u>137.1</u>	<u>118.9</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	15.5	14.6
Income taxes payable		2.0	0.5
Dividend payable	11	0.6	0.5
		<u>18.1</u>	<u>15.6</u>
Non-current liabilities			
Long-term debt	12	6.7	13.7
Deferred income tax liability	15	0.5	1.0
		<u>7.2</u>	<u>14.7</u>
Total liabilities		<u>25.3</u>	<u>30.3</u>
Shareholders' equity	13	<u>111.8</u>	<u>88.6</u>
Total liabilities and shareholders' equity		<u>137.1</u>	<u>118.9</u>
Commitments and contingencies	24, 21		

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Corporation by:

(signed) "Michael Binnion" Director

(signed) "Christopher Warren" Director

High Arctic Energy Services Inc.

Consolidated Statements of Earnings and Comprehensive Income

For the years ended December 31, 2013 and 2012

(Canadian \$ Million, except per share amounts)

		2013	2012
	Notes		
Revenue	25	152.7	146.2
Expenses			
Oilfield services	16	101.4	97.0
General and administration	16	9.8	9.6
Amortization	8	12.3	9.7
Excess of insurance proceeds over cost	9	(2.7)	-
Share-based compensation	14	0.8	1.4
Loss on sale of property and equipment		0.3	-
Foreign exchange loss		0.4	-
		122.3	117.7
Operating earnings		30.4	28.5
Interest and finance expense	12	0.8	1.0
Net earnings before income taxes		29.6	27.5
Current income tax expense	15	5.5	3.7
Deferred income tax recovery	15	(0.5)	(5.0)
Net earnings for the year		24.6	28.8
Earnings per share:	13		
Basic		0.51	0.62
Diluted		0.50	0.59
		2013	2012
Net earnings for the year		24.6	28.8
Other comprehensive income, net of tax:			
Items that may be reclassified subsequently to net income:			
Foreign currency translation gains (losses) for foreign operations		4.8	(1.1)
Comprehensive income for the year		29.4	27.7

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2013 and 2012
(Canadian \$ Million)

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained deficit	Total equity
Balance at January 1, 2013		168.5	7.3	(2.4)	(84.8)	88.6
Net earnings		-	-	-	24.6	24.6
Dividends	11	-	-	-	(7.2)	(7.2)
Other comprehensive income - foreign currency translation gain		-	-	4.8	-	4.8
Normal course issuer bid	13	(0.4)	0.1	-	-	(0.3)
Share-based payment transactions		1.0	0.3	-	-	1.3
Balance at December 31, 2013		169.1	7.7	2.4	(67.4)	111.8

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained deficit	Total equity
Balance at January 1, 2012		167.9	6.6	(1.3)	(109.6)	63.6
Net earnings		-	-	-	28.8	28.8
Dividends	11	-	-	-	(4.0)	(4.0)
Other comprehensive income - foreign currency translation loss		-	-	(1.1)	-	(1.1)
Normal course issuer bid	13	(1.0)	0.5	-	-	(0.5)
Share-based payment transactions		1.6	0.2	-	-	1.8
Balance at December 31, 2012		168.5	7.3	(2.4)	(84.8)	88.6

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012

(Canadian \$ Million)

		2013	2012
Operating activities	Notes		
Net earnings for the year		24.6	28.8
Adjustments for:			
Amortization	8	12.3	9.7
Excess of insurance proceeds over cost	9	(2.7)	-
Share-based compensation	14	0.8	1.4
Loss on sale of property and equipment		0.3	-
Foreign exchange loss		0.5	-
Deferred income tax recovery	15	(0.5)	(5.0)
		35.3	34.9
Net changes in items of non-cash working capital	19	1.5	3.1
Net cash generated from operating activities		36.8	38.0
Investing activities			
Purchase of property and equipment	8	(21.9)	(19.9)
Insurance proceeds	9	3.2	-
Disposal of property and equipment		0.2	-
Net cash generated used in investing activities		(18.5)	(19.9)
Financing activities			
Dividend payments	11	(7.2)	(4.0)
Issuance of common shares	13	0.5	0.4
Normal course issuer bid	13	(0.2)	(0.5)
Loans due from related parties	20	0.4	0.4
Repayment of long-term debt	12	(7.0)	(3.7)
Net cash used in financing activities		(13.5)	(7.4)
Net change in cash		4.8	10.7
Effect of exchange rate changes		1.5	0.2
Net change in cash and cash equivalents		6.3	10.9
Cash and cash equivalents – beginning of year		27.4	16.5
Cash and cash equivalents – end of year		33.7	27.4
Cash paid for:			
Interest		0.5	0.6
Income taxes		2.5	3.3

See accompanying notes to these consolidated financial statements.

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012

(Canadian \$ Million)

1 Nature of Business

High Arctic Energy Services Inc. ("High Arctic" or "the Corporation") is incorporated under the laws of Alberta, Canada and is a publicly traded Corporation listed on the Toronto Stock Exchange under the symbol "HWO". The head office of the Corporation is located at 8112 Edgar Industrial Drive, Red Deer, Alberta, Canada, T4P 3R2. High Arctic's principal focus is to provide contract drilling, completion services and other oilfield services to the oil and gas industry in Canada and Papua New Guinea.

As of December 31, 2013, 20,401,534 common shares of the Corporation were owned by FBC Holdings S.A.R.L. representing 41% of the outstanding common shares.

2 Basis of Preparation

The consolidated financial statements ("Financial Statements") of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Financial Statements of High Arctic for the year ended December 31, 2013 were approved by the Board of Directors on March 14, 2014 after review by the Corporation's Audit Committee.

3 Significant Accounting Policies

Basis of measurement

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

Principles of consolidation

The Financial Statements include the accounts of High Arctic Energy Services Inc. and its subsidiaries, substantially all of which are wholly-owned. Intercompany balances and transactions, including unrealized gains or losses between subsidiaries are eliminated on consolidation.

Foreign currency

a) Functional and presentation currency

Items included in the Financial Statements of each consolidated entity of the Corporation are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency.

b) Foreign operations

The financial statements of entities that have a functional currency different from that of the Corporation ("foreign operations") are translated into Canadian dollars as follows:

- assets and liabilities – at the closing rate at the date of the statement of financial position, and
- income and expenses – at the average rate of the period (where it approximates to the rates at the date of transaction).

All changes resulting from applying the closing rate to the assets and liabilities of foreign subsidiaries are recognized in other comprehensive income as cumulative translation adjustments.

c) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statement of earnings.

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012

(Canadian \$ Million)

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Initial measurement of financial instruments

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

a) Fair value through profit or loss

Fair value through profit or loss financial instruments are financial assets or financial liabilities that are purchased with the intention of selling or repurchasing in the near term. A derivative is classified as held for trading unless designated as and considered an effective hedge. Fair value through profit or loss financial instruments are recorded at fair value with any subsequent gains or losses from changes in the fair value included in earnings.

A derivative is a financial instrument whose value changes in response to a specified variable, requires little or no net investment and is settled at a future date. An embedded derivative is a derivative that is part of a non-derivative contract and not directly related to that contract. Embedded derivatives that are not closely related to the host contract must be accounted for as a separate financial instrument. A non-financial derivative is a contract that can be settled net in cash or another financial instrument. Fair values are based upon quoted market prices available from active markets or are otherwise determined using a variety of valuation techniques and models using quoted market prices.

The Corporation may enter into derivative contracts in order to manage risks. These contracts are marked to market at each reporting interval, with the change in estimated fair value recorded as a gain or loss in the period. The Corporation does not use derivative contracts for speculative or hedging purposes at this time. Currently, the Corporation has no qualifying hedging instruments.

b) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Corporation has the intent and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. Any gains or losses arising from the sale of a held-to-maturity investment are included in earnings.

c) Available-for-sale investments

The Corporation's available-for-sale assets are comprised of investments in equity securities. Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of other gains and losses when the Corporation's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and are included in other gains and losses.

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012

(Canadian \$ Million)

d) Loans and receivables

Cash and cash equivalents, accounts receivable, prepaid expenses and loan receivables are classified as loans and receivables. The fair value of cash and cash equivalents approximate their carrying value due to their short-term nature. Other items classified as loans and receivables in the Corporation's financial statements are accounted for at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are included in earnings. The fair value of accounts and other receivables and the demand portion of any amounts due from related parties approximate their carrying values due to the short-term nature of these instruments.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through earnings or loss or other liabilities. The Corporation determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and loans and borrowings include directly attributable transaction costs. Items classified as other financial liabilities on the Corporation's financial statements are accounted for at amortized cost using the effective interest method. Any gains or losses in the realization of other financial liabilities are included in earnings. The fair value of accounts payable and accrued liabilities and the demand portion of any amounts due to related parties approximate their carrying values due to the short-term nature of these instruments. The credit facility and long-term debt are recorded initially at fair value, net of transaction costs incurred.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise they are presented as non-current liabilities.

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

Disposal of long-lived assets and discontinued operations

Long-lived assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continued use and such sale is considered highly probable. The criteria for classification as held for sale include a firm decision by management or the Board of Directors to dispose of a business or a group of selected assets and the expectation that such disposal will be completed within a 12 month period. Assets held for sale are measured at the lower of their carrying amounts or their fair value less costs to sell and are no longer depreciated. Assets held for sale are classified as discontinued operations if the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes from the rest of the Corporation and they:

- represent a separate major line of business or geographical area of operations;
- are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- are a subsidiary acquired exclusively with a view to resale.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

High Arctic Energy Services Inc.

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For the years ended December 31, 2013 and 2012

(Canadian \$ Million)

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

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

The Corporation allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates separately each such component. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate. Land is not depreciated.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of earnings.

Inventories

Inventories consists primarily of operating supplies and spare parts not held for sale and are valued at the lower of average cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling costs. A regular review is undertaken to determine the extent of any obsolescence for which a provision is required.

Impairment of financial assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss, as follows:

- a) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the current instrument's original effective interest rate. When an instrument carries a variable interest rate, the discount rate is based on the present value of the estimated future cash flows using the effective interest rate under the contract. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- b) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of earnings. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed through profit and loss.

Impairment of non-financial assets

At each reporting date, property and equipment are assessed for impairment. If necessary, impairment is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount for an individual asset is determined as the higher of its fair value less costs to sell the asset and the asset's value in use.

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012

(Canadian \$ Million)

Should the recoverable amount not be determinable on an individual asset basis, it is estimated for groups of assets by determining the recoverable amount of the group of assets. This is done by determining the value of the discounted cash inflows less the discounted cash outflows of the group of assets. For the purposes of assessing impairment on groups of assets, the individual assets are grouped together into cash generating units ("CGUs"). Such CGUs represent the lowest level for which there are separately identifiable cash inflows.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of earnings so as to reduce the carrying amount to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of earnings.

Impairment of non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are measured in accordance with the Corporation's accounting policies. Thereafter, the assets are measured at the lower of their carrying value and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurements are recognized in profit or loss. Gains are not recognized in excess of cumulative impairment loss.

Employee benefits

a) Pension obligations - defined contribution pension plan

A defined contribution pension plan is a pension plan under which the Corporation pays fixed contributions into a separate entity. The Corporation has no legal or constructive obligations relating to future payments to employees.

b) Bonus plans

The Corporation recognizes a liability and an expense for bonuses based on various formulae that take into consideration operating earnings and other factors attributable to the financial and operational performance of the Corporation. The Corporation recognizes a provision where contractually obligated or where there is a past practice that has created a constructive obligation.

c) Share-based plans

The Corporation has a stock option plan that provides incentive for directors, management and employees. Options granted are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of stock options are set out in the share-based payment note.

The fair value determined at the grant date of the stock options is recognized as an employee benefit expense, with a corresponding increase in contributed surplus, over the vesting period based on the Corporation's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Corporation revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized immediately.

When the options are exercised, the Corporation issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium.

The Corporation has an Executive and Director Share Incentive Plan under which common shares may be issued to directors and executives. A share-based compensation amount for the common shares issued under the plan is measured as the number of common shares multiplied by the trading price of the Corporation's shares at the time of the grant and that amount is amortized over the vesting period. Each vesting period is treated as a separate tranche for measurement of the non-cash share-based compensation expense. The share-based compensation for each tranche is expensed based on the vesting date for that tranche resulting in a proportionally greater amount being recognized in the earlier periods.

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012

(Canadian \$ Million)

Provisions

Provisions for legal claims and other obligations, where applicable, are recognized in accrued liabilities when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts, and after eliminating intercompany sales. The Corporation bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the rendering of services is recognized as services are provided when the following criteria are met:

- the amount of revenue can be measured reliably;
- the receipt of economic benefits is probable; and
- costs incurred and to be incurred can be measured reliably.

The Corporation may receive payments from its customers for services yet to be rendered. As service is provided to the customer and the Corporation incurs expenses the Corporation recognizes revenue for the value of the service provided to that point in time.

Interest and finance costs

Interest and finance costs are comprised of interest payable on borrowings calculated using the effective interest rate method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Debt transaction costs incurred in connection with entering into new credit facility agreements are amortized over the term of the debt using the effective interest rate method. All other borrowing costs are recognized in earnings in the period in which they are incurred.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of earnings on a straight-line basis over the period of the lease.

Income tax

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in the statement of earnings except to the extent that it relates to the items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

High Arctic Energy Services Inc.

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(Canadian \$ Million)

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Dividends

Dividends on common shares, if declared, are recognized in the Corporation's financial statements in the period in which the dividends are approved by the Board of Directors of the Corporation.

Earnings per share

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net earnings or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible debentures, warrants, restricted incentive shares and share options granted to employees.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Corporation has determined that it has one reportable business segment of providing oilfield services to customers.

4 Changes in Accounting Policies

New standards and amendments effective for the first time

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. The following new standards and amendments were made in accordance with the applicable transitional provisions, but have not had a material impact on the Corporation:

- IFRS 7: *Financial Instruments: Disclosures*
- IFRS 10: *Consolidated Financial Statements*
- IFRS 11: *Joint Arrangements*
- IFRS 12: *Disclosure of Interests in Other Entities*
- IFRS 13: *Fair Value Measurement*
- IAS 19: *Employee Benefits*
- IAS 27: *Separate Financial Statements*
- IAS 28: *Investments in Associates and Joint Ventures*

Effective January 1, 2013, the Corporation adopted the amendments to IAS 1, *Presentation of Financial Statements*. These amendments require the Corporation to group items within other comprehensive income by those that will be subsequently reclassified to net earnings and those that will not. Accordingly, the Corporation has updated the presentation of other comprehensive income in the Consolidated Statements of Earnings and Comprehensive Income. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

High Arctic Energy Services Inc.

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5 Future Accounting Policies

There are no IFRS or IFRIC interpretations that are effective for the first time for the fiscal year beginning on or after January 1, 2014 that would be expected to have a material impact on the Corporation.

In May 2013, the IASB released an amendment to IAS 36, Impairment of Assets. This amendment requires entities to disclose how the fair value, less costs of disposal, has been measured when an impairment loss has been recognized or reversed. The amendment is effective January 1, 2014 and will have no material effect on the Corporation's financial statements except for additional disclosure requirements.

6 Critical Accounting Estimates and Judgments

The preparation of the Corporation's Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. The accounting policies and practices that involve the use of estimates and judgments that have a significant impact on the Corporation's financial results include the allowance for doubtful accounts, depreciation and amortization, impairment of property and equipment, income taxes and share-based compensation.

Allowance for doubtful accounts

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

Amortization

Amortization of the Corporation's property and equipment incorporates estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change, thereby impacting the value of the Corporation's property and equipment.

Impairment of property and equipment

Property and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Income taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. The Corporation's calculation of income taxes involves many complex factors as well as the Corporation's interpretation of relevant tax legislation and regulations and estimations of future taxable profits. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Management does not currently expect to generate sufficient taxable income in future years to fully utilize its Canadian tax losses and has currently recognized a deferred tax asset based on estimated future taxable profits which are probable of being utilized (Note 15). Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share-based compensation

The fair value of stock options is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, dividend yield, estimated forfeitures and estimated volatility of the Corporation's shares. The fair value of the

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shares under the Executive and Directors Share Incentive Plan are recognized based on the market value of the Corporation's shares, the vesting period of the plan and the estimated forfeitures.

Critical accounting judgments

Significant judgments are used in the application of accounting policies that have been identified as being complex and involving subjective judgments and assessments.

Functional currency

The determination of functional currency is based on the primary economic environment (including monetary policy) in which an entity operates. The functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Factors that an entity considers when determining its functional currency include: (i) the currency that the delivery of goods and services are contracted in, (ii) the currency used to conduct business in the region, (iii) the currency that mainly influences labour, material and other costs of providing goods or services, (iv) the currency in which receipts from operating activities are usually retained in. When the indicators are mixed and the functional currency of an entity is not obvious, management uses its judgment to determine the functional currency that most appropriately represents the economic effects of the underlying transactions, events and conditions. Judgment was applied in determining the functional currency of the operations in Papua New Guinea to be US dollars.

7 Accounts Receivable

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

	2013	2012
Less than 31 days	21.0	13.9
31 to 60 days	0.6	2.4
61 to 90 days	0.6	1.7
Greater than 90 days	0.3	1.5
Allowance for doubtful accounts	(0.6)	(0.5)
Total	21.9	19.0
The Corporation's accounts receivables are denominated in the following currencies:		
Canadian dollar	7.4	6.7
United States dollar	14.5	12.3
Total	21.9	19.0

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8 Property and Equipment

The following tables provide a continuity of the property and equipment costs, net of impairment and accumulated amortization, and provide details of the effects of foreign currency translation for the years ended December 31, 2013 and 2012.

Cost:	Light vehicles	Heavy trucks	Oilfield equipment	Computer hardware and office equipment	Land	Work-in-progress	Total
Balance January 1, 2012	2.6	19.5	102.8	2.7	-	1.0	128.6
Additions	0.4	0.4	-	0.3	1.2	17.6	19.9
Transfers	-	(5.7)	16.9	-	-	(11.2)	-
Disposals	(0.1)	(1.0)	-	-	-	-	(1.1)
Effect of foreign exchange	(0.2)	(0.1)	(0.8)	-	-	-	(1.1)
Balance December 31, 2012	2.7	13.1	118.9	3.0	1.2	7.4	146.3
Additions	0.2	0.1	-	0.1	-	21.5	21.9
Disposals	(0.3)	(0.2)	(5.5)	(0.1)	-	-	(6.1)
Transfers	(0.6)	(0.6)	23.7	(0.2)	-	(22.3)	-
Effect of foreign exchange	-	-	3.6	-	-	-	3.6
Balance December 31, 2013	2.0	12.4	140.7	2.8	1.2	6.6	165.7

Accumulated amortization and impairments:	Light vehicles	Heavy trucks	Oilfield equipment	Computer hardware and office equipment	Land	Work-in-progress	Total
Balance, January 1, 2012	1.0	14.5	59.3	1.9	-	-	76.7
Amortization for the year	0.4	0.8	8.3	0.2	-	-	9.7
Transfers	-	(5.3)	5.3	-	-	-	-
Disposals	(0.1)	(0.9)	(0.1)	-	-	-	(1.1)
Effect of foreign exchange	-	(0.1)	(0.2)	-	-	-	(0.3)
Balance, December 31, 2012	1.3	9.0	72.6	2.1	-	-	85.0
Amortization for the year	0.4	0.6	10.9	0.4	-	-	12.3
Disposals	(0.2)	(0.1)	(4.7)	(0.1)	-	-	(5.1)
Transfers	(0.5)	(0.4)	1.1	(0.2)	-	-	-
Effect of foreign exchange	-	-	1.4	-	-	-	1.4
Balance, December 31, 2013	1.0	9.1	81.3	2.2	-	-	93.6

Carrying amounts of property and equipment:

At December 31, 2012	1.4	4.1	46.3	0.9	1.2	7.4	61.3
At December 31, 2013	1.0	3.3	59.4	0.6	1.2	6.6	72.1

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9 Excess of Insurance Proceeds over Costs

During the year ended December 31, 2013, the Corporation incurred damage to certain pieces of equipment which was covered by its insurance provider. The total proceeds received under the insurance policy were \$3.2 million and the net book value of the property damaged was \$0.5 million. The resulting excess of insurance proceeds over costs and net book value of \$2.7 million has been recognized in the determination of net earnings.

10 Accounts Payable and Accrued Liabilities

	2013	2012
Accounts payable	9.0	6.8
Accrued liabilities	3.8	3.9
Accrued payroll	2.7	3.9
Total	15.5	14.6

11 Dividend Payable

In 2012, the Corporation instituted a dividend policy and the first monthly dividend of \$0.01 per common share (including the restricted shares) was paid on June 14, 2012. The monthly dividend amount was increased to \$0.0125 per share beginning with the payment made on April 12, 2013. Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. During the year ended December 31, 2013, the Corporation declared dividends of \$7.2 million (2012 - \$4.0 million), of which \$0.6 million (2012 - \$0.5 million) was payable as of the year end. Since December 31, 2013, but before the date of approval of these financial statements by the Board of Directors on March 14, 2014, monthly dividends totalling \$0.025 per share have been declared for a total of \$1.3 million.

12 Long-Term Debt

The main components of the Corporation's long-term debt are a \$30 million revolving loan and a \$5 million revolving operating loan. The maturity date of both main components is August 31, 2015 and no principal payments are required prior to that date. The long-term debt is secured by all of the assets of the Canadian parent and by guarantees given by its material foreign subsidiaries.

The long-term debt agreement permits borrowing in Canadian or US dollars and contains an interest rate grid whereby the interest rate applicable to borrowings will vary according to the currency of the borrowings and a prescribed leverage ratio. The Corporation's existing borrowings are all denominated in Canadian dollars and carry an annual interest rate equal to the lender's prime interest rate plus 1.0% and an annual standby fee of 0.35% on any undrawn portion of the facilities. The effective interest rate on the long-term debt was 4% for the years ended December 31, 2013 and 2012.

During the year ended December 31, 2013, the Corporation made total payments of \$7.0 million (2012 - \$3.7 million) against the revolving loan.

Long-term debt:	2013	2012
Outstanding debt	6.8	13.8
Capitalized transaction costs ⁽¹⁾	(0.1)	(0.1)
Long-term debt, end of year	6.7	13.7

(1) The transaction costs in connection with the credit facilities are amortized over the remaining term of the long-term debt as financing expenses.

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13 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:	2013		2012	
	Shares	\$	Shares	\$
Balance, beginning of year	47,995,322	167.4	46,080,262	166.1
Issuance of shares	345,740	1.0	430,440	0.8
Normal course issuer bid	(105,470)	(0.4)	(285,380)	(1.0)
Vested restricted shares (note 14)	1,778,000	1.0	1,770,000	1.5
Common shares outstanding	50,013,592	169.0	47,995,322	167.4
Restricted shares outstanding (note 14)	32,000	0.1	1,810,000	1.1
Total common and restricted shares outstanding	50,045,592	169.1	49,805,322	168.5

Issuance of Shares

For the year ended December 31, 2013, a total of 345,740 stock options were exercised (2012 – 430,440) for shares of the Corporation (see Note 14).

Normal Course Issuer Bid

On May 13, 2013, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 5 percent of the Corporation's issued and outstanding common shares under a Normal Course Issuer Bid (the "Bid"). The Corporation can purchase up to 2,492,716 common shares for cancellation subject to a daily purchase limit of 11,634 common shares. The Bid commenced on May 28, 2013 and will terminate on May 27, 2014. During the year ended December 31, 2013, 105,470 common shares were purchased and cancelled pursuant to the Bid. In 2012, 285,380 common shares were purchased under the terms of a previous Normal Course Issuer Bid.

(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.

	2013		2012	
	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings per share	48,627,561	\$0.51	46,725,267	\$0.62
Adjustments for:				
Stock options	281,613		531,400	
Restricted shares	19,145		1,593,979	
Weighted average number of common shares used in diluted earnings per share	48,928,319	\$0.50	48,850,646	\$0.59

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14 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 4,980,532 options (being 10% of all outstanding shares) are available for grants. At December 31, 2013, a total of 2,455,660 options are outstanding and expire at various dates up to 2018, at amounts that range from \$0.75 to \$2.83 per share. These options are exercisable over a term of 5 years and are generally subject to a three year vesting period with 40% exercisable by the holder after the first anniversary date, 70% after the second anniversary date and 100% after the third anniversary date. The options have an average remaining contractual life of 4.04 years and 522,860 options are currently vested and eligible to be exercised.

	Number of Options	Weighted Average Exercise Price \$/Share
Total Outstanding January 1, 2012	1,244,910	1.24
Granted	748,000	1.54
Exercised	(430,440)	0.98
Forfeited	(343,300)	1.58
Expired	(14,370)	12.04
Total Outstanding December 31, 2012	1,204,800	1.29
Granted	1,615,000	2.80
Exercised	(345,740)	1.15
Forfeited	(17,700)	1.18
Expired	(700)	0.96
Total Outstanding December 31, 2013	2,455,660	2.30

The options exercised in 2013 had a weighted average market price of \$2.91 per share on the date of exercise.

Exercise Price Range	Options Outstanding			Exercisable Options	
	Number of Options	Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
\$0.75 to \$1.35	519,660	2.35	1.11	296,460	0.98
\$1.36 to \$1.92	301,000	3.41	1.73	93,400	1.74
\$1.93 to \$2.43	410,000	4.04	2.20	8,000	2.11
\$2.44 to \$3.39	1,225,000	4.91	2.99	125,000	2.83
Total Outstanding December 31, 2013	2,455,660	4.04	2.30	522,860	1.58

Share-based compensation is a non-cash item and is measured in accordance with a prescribed formula. Share-based compensation expense recognized by the Corporation for the Stock Option Plan for the year ended December 31, 2013 was \$0.5 million (2012 - \$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:

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Year of Grant	2013	2012	2011	2010	2009
Average Fair value per option granted	1.19	0.92	0.97	0.74	0.08
Average expected life (years)	3.1	3.2	5	5	5
Expected volatility (%)	63	96	121	139	117
Expected forfeiture rate (%)	28	18.5	13.4	13.4	13.4
Average risk-free interest rate (%)	1.12	1.10	1.77	1.84	1.11
Expected distribution yield (%)	8-10	0 – 7.5	0	0	0

Share Incentive Plan

On June 29, 2010, the shareholders approved an Executive and Director Share Incentive Plan (the “EDSIP”). The maximum number of common shares initially available for issuance by the Corporation under the EDSIP was 7,578,444 common shares of which 218,444 common shares remain available for issue at December 31, 2013. 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 over the 3 year vesting period with an equivalent share based compensation amount recorded. A share-based compensation amount for the common shares issued under the EDSIP is measured as the number of common shares multiplied by the trading price of the Corporation’s common shares at the time of the grant and that amount is amortized over the vesting period. Each vesting period is treated as a separate tranche for measurement of the non-cash share-based compensation expense. The share-based compensation for each tranche is expensed based on the vesting date for that tranche resulting in a proportionally greater amount being recognized in the earlier periods.

In September 2010, the Corporation issued 7,100,000 shares under the EDSIP to a trustee for the benefit of designated directors and executive management. These incentive shares had a three year vesting period with 40% vested on April 1, 2011, 30% on September 1, 2012 and 30% on September 1, 2013 and a share capital amount of \$0.825 per share has been recorded as the related share-based compensation expense was recognized. In March 2011 a further 200,000 shares were granted under the EDSIP and had a three year vesting period with 40% vesting on December 31, 2011, 30% on December 31, 2012 and 30% on December 31, 2013 and a share capital amount of \$1.05 per share has been recorded as the related share-based compensation expense is recognized. In July 2012, an additional 40,000 shares were granted under the EDSIP which have a three year vesting period with 40% vesting on June 8, 2013, 30% on June 8, 2014 and 30% on June 8, 2015 and a share capital amount of \$1.60 per share will be recorded as the related share-based compensation expense is recognized. In February, 2013, 20,000 of the shares granted in 2012 were forfeited. In April 2013, an additional 20,000 shares were granted under the EDSIP which have a three year vesting period with 40% vesting on April 1, 2014, 30% on April 1, 2015 and 30% on April 1, 2016 and a share capital amount of \$2.35 per share will be recorded as the related share-based compensation expense is recognized.

Restricted Common Shares Issued under the Share Incentive Plan:

	2013	2012
Balance, beginning of year	1,810,000	3,540,000
Grant of common shares	20,000	40,000
Vested common shares	(1,778,000)	(1,770,000)
Forfeitures	(20,000)	-
Balance, end of year	32,000	1,810,000

For the year ended December 31, 2013, the Corporation incurred share based compensation expense of \$0.3 million (2012- \$0.9 million) related to the EDSIP and an amount of up to \$0.1 million (before recognizing a

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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 11.8 % has been assumed in the share based compensation expense assumptions.

15 Income Taxes

(a) Income tax expense

The provision for income taxes in the consolidated statement of earnings varies from the amount that would be computed by applying the expected income tax rate of 25.0% to the net earnings before income taxes. The effective tax rates are as follows:

	2013	2012
Net earnings before income taxes	29.6	27.5
Canadian statutory tax rate	25.0%	25.0%
Computed income tax expense at the statutory rate	7.4	6.9
Increase (decrease) resulting from:		
Non-deductible expenses	0.2	0.5
Tax rate differences for foreign subsidiaries	(1.0)	(1.0)
Canadian timing differences not previously recognized for tax purposes	(1.6)	(7.5)
Prior year adjustments	-	(0.2)
Income tax expense (recovery)	5.0	(1.3)
Effective tax rate	16.9%	(4.7)%

(b) Deferred income taxes

Differences between the accounting and tax basis of assets and liabilities at the tax rates expected to apply upon the reversal of the differences are shown below.

	Deferred Tax Asset Canada	Deferred Tax Liability Papua New Guinea
Balance January 1, 2012	-	(1.0)
Credited to earnings	5.0	-
Balance December 31, 2012	5.0	(1.0)
Credited to earnings	-	0.5
Balance December 31, 2013	5.0	(0.5)

As at December 31, 2013 a deferred tax asset of \$5.0 million (2012 – \$5.0 million) was recognized in the statement of financial position based on the probability that the Corporation will generate taxable income in Canada in the future. Of the \$5.0 million deferred tax asset, \$1.5 million is expected to be recovered within the next twelve months. At each reporting period, the Corporation assesses its ability to utilize the deductible

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temporary differences based on its history of profitability, the current industry activity in Canada and the expectation of future taxable profitability. The deductible temporary differences for which no benefit has been booked that relate to the available Canadian tax pools are as follows:

	2013	2012
Property and equipment	2.3	9.8
Non- capital losses	73.7	71.8
Capital losses	5.4	5.4
Financing costs	3.1	4.1
Total	84.5	91.1

Earnings retained by subsidiaries that may be subject to dividend withholding taxes in the country of origin upon repatriation amounted to \$56.5 million as at December 31, 2013. The average dividend withholding rate is estimated to be 17%. No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings because the Company controls the relevant entities and has no committed plans to remit the earnings in the foreseeable future.

At December 31, 2013, the Canadian non-capital losses carried forward for income tax purposes was \$93.7 million (2012 – \$91.8 million) which expire in years 2024 through 2032. Also at December 31, 2013, the Canadian capital losses carried forward for income tax purposes was \$5.4 million (2012 – \$5.4 million) which can be carried forward indefinitely but only used against capital gains. The Corporation has the ability to file amended tax returns to adjust certain discretionary deductions to mitigate the risk of expiring loss carry forwards.

16 Expenses

Oilfield services expenses by nature	2013	2012
Personnel costs and personnel related costs	44.9	48.4
Drilling rig rental cost	30.6	26.5
Material and supplies cost	16.1	12.4
Equipment operating and maintenance costs	8.8	8.5
Other	1.0	1.2
Total	101.4	97.0
General and administrative expenses by nature	2013	2012
Personnel costs and personnel related costs	6.8	6.5
Professional, legal and consulting fees	0.8	1.0
Facility costs	1.0	1.0
Leases	0.7	0.6
Other	0.5	0.5
Total	9.8	9.6

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17 Wages and Benefit Expense

	2013	2012
Salaries and wages and short-term employee benefits	51.2	54.8
Post-employment benefits	0.5	0.1
	51.7	54.9
Stock based compensation	0.8	1.4
Total	52.5	56.3

Compensation of key management

	2013	2012
Salaries and wages and short-term employee benefits	2.5	1.8
Post-employment benefits	0.5	0.1
	3.0	1.9
Stock based compensation	0.6	1.0
Total	3.6	2.9

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

18 Significant subsidiaries

The following table lists the Corporation's principal subsidiaries, the jurisdiction of formation or incorporation of such subsidiaries and the percentage of shares owned, directly or indirectly, by the Corporation as of December 31, 2013:

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

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19 Supplemental Cash Flow Information

Changes in non-cash working capital is comprised of:

	Note	2013	2012
Accounts receivable	7	(2.0)	0.1
Inventory and prepaid expenses		0.1	(0.3)
Accounts payable and accrued liabilities	10	0.3	3.4
Income taxes receivable and payable		3.1	(0.1)
Total		1.5	3.1

20 Related Party Transactions

In April, 2011 High Arctic made loans to certain directors and officers of the Corporation in the total aggregate amount of \$1.1 million. The purpose of the loans was to assist the directors and 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 14). The principal amount of each loan bore interest at an annual rate of 2%. As at December 31, 2013, these loans were fully repaid (December 31, 2012 - \$0.4 million outstanding).

21 Contingent Liability

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.

22 Capital Disclosures

The Corporation's capital structure is comprised of shareholders' equity, described in Note 13, and the long term debt described in Note 12 less cash and cash equivalents.

	2013	2012
Shareholders' equity	111.8	88.6
Total long-term debt	6.8	13.8
Cash and cash equivalents	(33.7)	(27.4)
Total Capitalization	84.9	75.0

The Corporation's goal is to have a capital structure that will provide the capital to meet the needs of its business and instil confidence with investors, creditors and capital markets.

Financing decisions for the foreseeable future will be governed largely by managing the available cash and liquidity available under the Corporation's credit facilities based on the timing and extent of expected operating and capital cash outlays. Future equity and debt financings are a possibility to raise capital for new business opportunities.

The Corporation's loan facilities are subject to four financial covenants, which are reported to the lender on a quarterly basis. These financial covenants are used by management to monitor capital and to assess the funds

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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.

23 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, credit risk and liquidity risk.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market rates of interest, foreign currency exchange rates and commodity prices.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk as the long term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. For the year ended December 31, 2013 a one percent change in interest rates on the loan facility would have amounted to a change in interest expense and earnings of \$0.1 million (2012 - \$0.1 million).

Foreign Currency Risk

Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results. The majority of the Corporation's international revenue and expenses are transacted in U.S. dollars and the Corporation does not actively engage in foreign currency hedging. For the year ended December 31, 2013, a 1% nominal change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a \$0.5 million (2012 - \$0.3 million) change in other comprehensive income as a result of changes in foreign exchange.

Commodity Price Risk

Commodity price risk is the risk that fluctuations in oil or natural gas prices could materially adversely affect the Corporation's financial condition. The commodity prices affect the levels of drilling activity, which affects certain segments of the Corporation's business, particularly with respect to natural gas. The Corporation mitigates this exposure with its diversification into international operations not dependent on the Canadian oil and gas industry.

Risk of Foreign Operations

The Corporation operates in international locations, including Papua New Guinea, which displays characteristics of an emerging market. Operations in these countries may be subject to a variety of risks including, but not limited to: currency fluctuations, devaluations and exchange controls; inflation; uncertain political and economic conditions resulting in unfavourable government actions such as unfavourable legislation or regulation, trade restrictions, unfavourable tax enforcement or adverse tax policies; the denial of contract rights; and social unrest, acts of terrorism or armed conflict. To attempt to mitigate these risks, the Corporation employs personnel with extensive experience in the international marketplace, supplemented with qualified local staff. Management is unable to predict the extent or duration of these risks or quantify their potential impact.

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(Canadian \$ Million)

Income Tax Risk

The Corporation has risks for income tax matters, including the unanticipated tax and other expenses and liabilities of the Corporation due to changes in income tax laws. The Corporation must file tax returns in the foreign jurisdictions in which it operates. The tax laws and the prevailing assessment practices are subject to interpretation and the foreign authorities may disagree with the filing positions adopted by the Corporation. The impact of any challenges cannot be reliably estimated and may be significant to the financial position or overall operations of the Corporation.

Credit Risk and Customers

Credit risk is the risk of a financial loss occurring as a result of a default by a counter party on its obligation to the Corporation. The Corporation's financial instruments that are exposed to credit risk consist primarily of accounts receivable 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 has two significant customers. Services are provided to the first significant customer in Papua New Guinea. That customer represents approximately 65% of the Corporation's revenue for year ended December 31, 2013 (2012 – 62%) and 45% of its accounts receivable at that date (2012 – 42%). The second significant customer is a major Canadian exploration and production company which represents approximately 9% of the Corporation's revenue for the year ended December 31, 2013 (2012 – 12%) and 2% of the Corporation's accounts receivable at that date (2012 – 5%). Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with either customer.

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:

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

2012	Beyond 5				Total
	1 Year	2-3 Years	4-5 Years	Years	
Accounts payable	14.6	-	-	-	14.6
Dividends payable	0.5				0.5
Long-term debt	0.6	14.2	-	-	14.8
Total	15.7	14.2	-	-	29.9

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24 Commitments

Lease Obligations

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

The minimum lease payments for the next five years as at December 31, 2013 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	0.4	0.1	-	-	0.5
Total lease commitments	0.4	0.1	-	-	0.5

25 Operating Segments

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

	2013	2012
Revenue		
Papua New Guinea	111.9	99.0
Canada	40.8	47.2
Total	152.7	146.2

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

	2013	2012
Current assets		
Canada	33.4	28.4
Papua New Guinea	26.6	23.8
	60.0	52.2
Non-current assets		
Canada	41.8	36.7
Papua New Guinea	35.3	30.0
	77.1	66.7
Total assets	137.1	118.9
Liabilities		
Canada	12.1	18.1
Papua New Guinea	13.2	12.2
Total liabilities	25.3	30.3

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Included in the current assets attributed to Canada as at December 31, 2013 is \$21.1 million (2012 - \$8.9 million) held in a bank account in Singapore. The segment presentation of non-current assets is based on the geographic location of the assets.

26 Presentation of prior year amounts

The presentation of certain prior year amounts has been restated to conform with the presentation adopted in the current year.