WESTPEAK RESEARCH

January 8, 2016

High Arctic Energy Services Inc. (HWO:TSX)

Energy - Oil & Gas Drilling

High Arctic poised for high returns

Vasant Jain | Chief Editor, Analyst
Bachelor of Commerce 2016

Equity Research	Canada
Price Target	**CAD$ 7.50**
Rating	Buy
Current Share Price, close	CAD$ 3.31
Total Return	129.4%

Key Statistics	
52 week H/L	$4.50/$3.12
Market Capitalization	$181.7M
Net Debt	-$24.9M
Enterprise Value	$156.8M
Net Debt/Enterprise Value	-16%
Diluted Shares Outstanding	54.89M
Free Float %	52%
Dividend Yield	5.48%
LTM P/E	7.0x
LTM EV/EBITDA	3.1x

WestPeak's Forecast

	2015E	2016E	2017E
Revenue	$204M	$231M	$258M
EBITDA	$58M	$66M	$73M
EBIT	$43M	$48M	$54M
Net Income	$28M	$39M	$43M
P/E	6.4x	4.6x	4.2x
EV/EBITDA	2.7x	2.3x	2.1x

Source: Stockcharts.com

Company Profile

High Arctic Energy Services ("High Arctic" or "HWO") is an international oilfield services contractor with operations in Western Canada and Papua New Guinea ("PNG"). The company has a leading market position for contract drilling, well completion, and rental services in PNG, and is the market leader for snubbing services in Canada.

Leading Market Position in PNG

Given that HWO has been operating in PNG for over 10 years, the company has garnered significant market power through its relationships with major E&P companies in the region. Furthermore, HWO has the newest and most advanced rigs in PNG, which makes it well-positioned for the growing drilling activity in the country.

Diversified Operations & Long Term Contracts

HWO is one of the few Canadian oilfield services contractor that experienced revenue and EBITDA growth in an environment where oil prices continue to linger in the sub-$40 territory. This resilience in HWO's financial performance can be attributed to the company's diversified operations and management's ability to secure multi-year drilling contracts.

Valuation & Recommendation

At 2016 EV/EBITDA of 2.3x, HWO's valuation is among the lowest compared to its drilling peers at an average of 5.3x. We believe that this valuation is not justified given the company's strong EBITDA margins, growing operations, and ROIC of 20.4% in 2015. Our bullish stance on HWO is driven by our DCF valuation of $7.50 and target 2016 P/E of 10.0x.

Vasant Jain | Contact@westpeakresearch.com

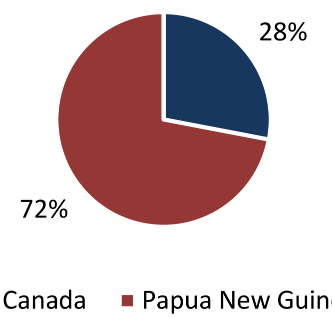
Business Overview

High Arctic Energy Services is headquartered in Calgary, Alberta, and is a publicly traded company listed on the Toronto Stock Exchange. The company's primary focus is to provide drilling and specialized well completion services, equipment rentals, and other services to the oil and gas industry.

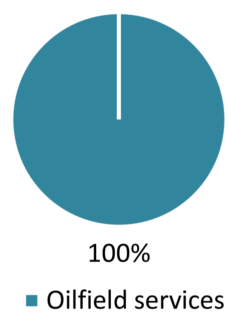
High Arctic's largest operation is in Papua New Guinea, where it provides drilling and specialized well completion services and supplies rig matting, camps and drilling support equipment on a rental basis. In Canada, the product line primarily consists of snubbing services and the supply of nitrogen pumping services, as well as equipment rentals.

In addition to its corporate office in Calgary, High Arctic has additional Canadian offices in Grande Prairie and Red Deer. International offices are located in Port Moresby, Papua New Guinea and Brisbane, Australia.

Geographic Segment - Revenues 2014



Business Segment - Revenues 2014



Revenue Model

High Arctic's services are generally conducted under a daily rate contract whereby the company charges a fixed day rate of service regardless of the activity being conducted. The contract has an operating rate while the equipment is operating and a reduced rate for other periods such as when the equipment is on standby or is moving between well locations.

In Canada, the contracts are generally on a well-by-well basis. In PNG, the rigs are contracted for longer period due to the frontier nature of the operating environment, as well as the costs associated with mobilizing crews and equipment to remote locations. The contracts usually have extension periods beyond the primary term, as well as price adjustment clauses that allow the customer to terminate for a fee before the completion of the primary term.

For the three months ended September 30, 2015, High Arctic's revenues were $58.5 million; a 42% increase over the revenues generated during the third quarter of 2014 of $41.3 million. For the first nine months of 2015, High Arctic's revenues increased by 21% to $151.9 million as compared to $125.6 million for the first three quarters of 2014.

The increase in revenue from PNG can be attributed to higher drilling rig utilization, the commencement of operations from Rig 115 in March, standby revenues from Rig 116 commencing in August, and the stronger U.S. dollar.

The steep decline in oil and natural gas prices have impacted High Arctic's Canadian operations where revenues declined by approximately 26% during the first nine months of 2015 as compared to the same period in 2014.

($ millions)	Three Months Ended September 30				Nine Months Ended September 30			
	2015	2014	Change	%	2015	2014	Change	%
Revenue								
Papua New Guinea	50.2	31.4	18.8	60	127.7	92.7	35.0	38
Canada	8.3	9.9	(1.6)	(16)	24.2	32.9	(8.7)	(26)
Total	**58.5**	**41.3**	**17.2**	**42**	**151.9**	**125.6**	**26.3**	**21**

Product & Service Lines

Drilling and workover rigs

The company currently operates 4 heli-portable drilling rigs and 1 heli-portable workover rig in PNG including the provision of support personnel.

- Rig 103 and Rig 104 are heli-portable rigs leased from and under contract with Oil Search Limited (OSL) through June 30, 2016. High Arctic has renewed the contract with OSL twice.
- Rig 115 and Rig 116 are heli-portable rigs owned by High Arctic.
- Rig 102 is a hydraulic workover rig owned by High Arctic and is the only hydraulic workover rig in PNG.

Equipment Rentals

High Arctic's rental fleet includes matting, cranes, forklifts, trucks, camps, river pumps, and lighting towers. These equipment are rented on a day or hourly rate basis. High Arctic also rents equipment such as high pressure blowout preventers and boilers.

Snubbing

Snubbing is the process of moving the tubing and drill pipe into and out of a wellbore under pressure. The largest activity of High Arctic's snubbing operation is running production tubing to complete the well for production. Snubbing services are generally provided on a day rental basis under short term well-to-well contracts using the Stand Alone Snubbing System units and Rig Assist units.

Cryogenic Liquid Nitrogen Pumping Services

Nitrogen is an inert gas that is non-corrosive and non-explosive and is used in place of air. Nitrogen's most common uses are; well bore displacement, well bore/well head pressure testing, well bore cleanouts, nitrified acid stimulation, nitrified acid stimulation, and hydrocarbon blanketing.

Operating Regions

PNG

In PNG, High Arctic offers the following services:

Primary Services	Secondary Services
Heli-portable Drilling Rigs 103 & 104	Drilling Support Equipment Rentals
Heli-portable Drilling Rigs 115 & 116	Dura-Base mat rentals
Heli-portable Hydraulic Workover Rig 102	

Rig 102

Rig 103 & 104

Rig 115 & 116

Rig 103 was fully utilized and completed its current well in the Gulf Province of PNG in 2015. The rig is then expected to move to a two-well project in the Western Province for a new customer.

Rig 104 is currently completing a well in the PNG Highlands and is then scheduled to an additional well in the Western Province. Thereafter it is anticipated it will be moved to the P'nyang field in the Western Highlands of PNG.

Rig 115 is currently under a 2-year contract with InterOil and began operations in April 2015. The company has since completed drilling its first well on the customer's wholly owned lease. The rig has been assigned to drill one firm and one option well for the customer's joint venture partner in the Elk/Antelope field. With this assignment, HWO continues to expand its customer base in PNG. Upon completion of these wells, the rig will revert back to the original customer under its take or pay contract.

Rig 116, purchased in 2014, arrived in Papua New Guinea during the second quarter of 2015. Mobilization to its first location is expected to commence in mid-2016. Rig 116 is under a take or pay contract currently earning standby rates and the contract will continue until two years after the first well is spudded.

Rig 102 is the only hydraulic workover rig in PNG and is currently stacked.

Canada

In Canada, High Arctic offers the following services:

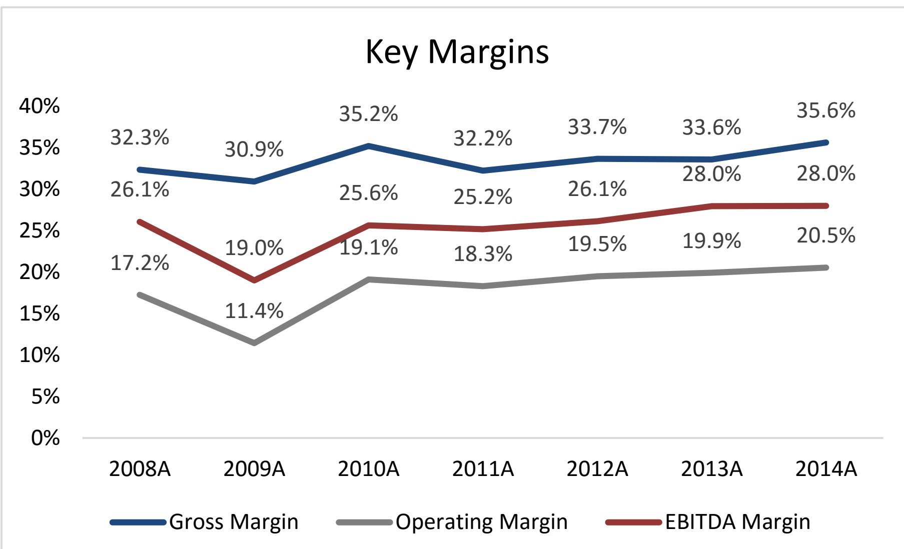
Primary Services	**Secondary Services**
Snubbing Units • 3 Rig Assist Units • 15 Stand Alone Snubbing System Units	Specialized Equipment Rentals • High pressure BOP's • Boiler Equipment
Cryogenic Nitrogen Pumpers and Bulkers • 11 Low Rate Unit • 1 High Rate N2 Pumper • 5 Nitrogen Transport	

Rig Assist Unit

Nitrogen Pumper Unit

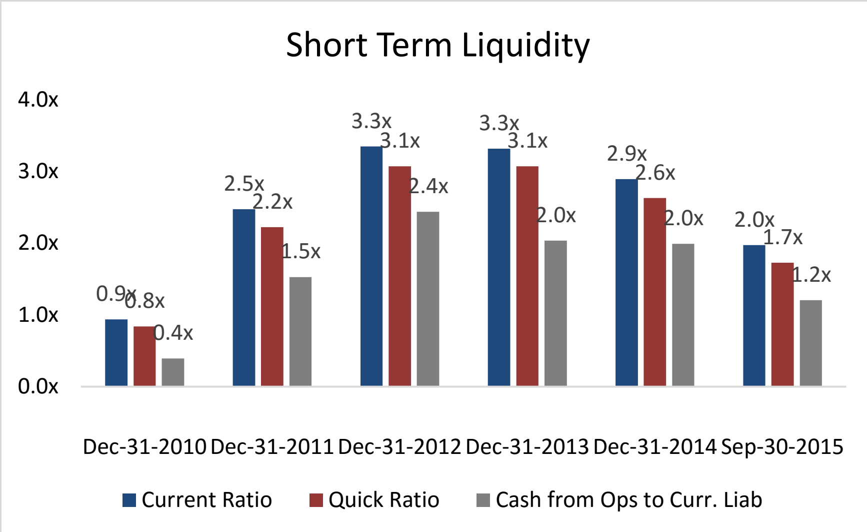
Financial Overview

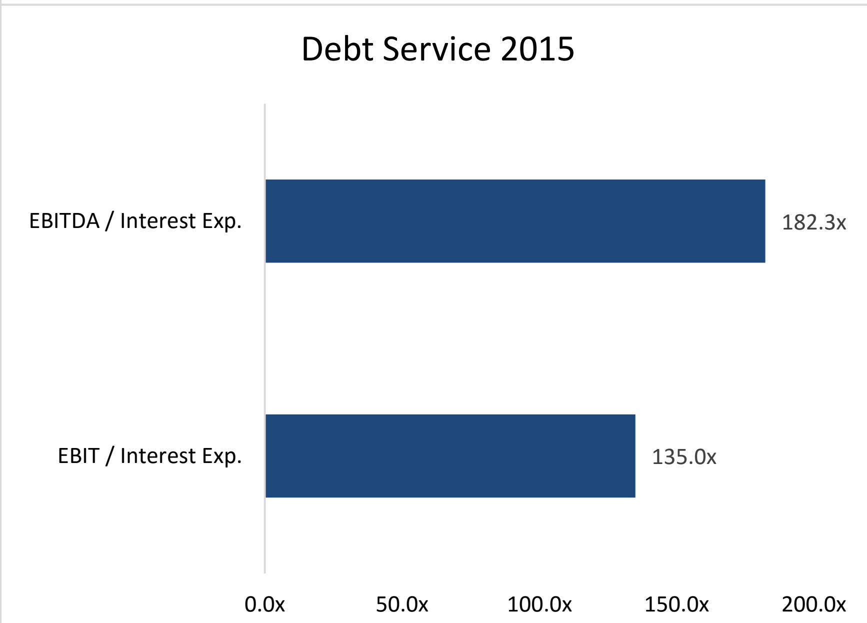
Key Margins

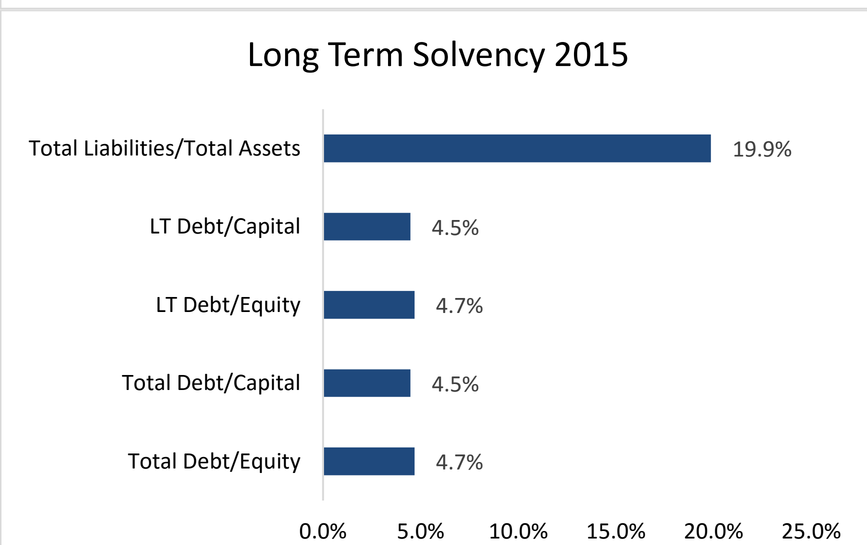


As seen, HWO has consistently been achieving strong margins since 2010, as the company refocused its corporate strategy and discontinued unprofitable operations in the Middle East. We believe that HWO will be able to keep up with these healthy margins as it begins to expand and obtain greater market share in the region.

Liquidity & Solvency







The current environment of low oil prices have driven many oilfield services companies into distressed territory. However, this case does not apply to HWO as the company continues to exhibit sound liquidity measures. Though HWO's liquidity ratios appear to be better in years prior to 2015, we believe that these ratios will improve by the end of 2016 as Rig 116 begins earning revenues.

With regards to long term solvency, HWO appears to be very healthy as it currently has an EBITDA/Interest Expense of 182.3x and EBIT/Interest Expense of 135.0x. Furthermore, given that the company maintains low leverage and has a credit facility of $45M, of which only $7.5M had been drawn, we believe that HWO will unlikely face the risk of financial distress, despite the substantial decline in oil and natural gas prices.

Industry Overview

PNG Market Landscape

PNG is an independent country with established democracy and a stable business jurisdiction, despite having high crime rates and occasionally political upheavals. The country's economy is a commodity-based one and is dominated by two sectors: the agricultural and energy extraction sectors, which accounts for the majority of export income. Furthermore, PNG is one of the lowest cost LNG providers and is in close proximity to the Asian LNG market. The country also has over 20 trillion cubic feet (TCF) of discovered gas, only 9 TCF of which is under development.

A major step toward PNG becoming a significant energy exporter is the construction of the PNG LNG Project that will provide a long-term supply of liquefied natural gas (LNG) to surrounding Asian countries such as Singapore, China, and Japan.

PNG LNG Project

The PNG LNG Project is a 6.9 million tonne per annum (MTPA) integrated LNG development project operated by ExxonMobil PNG Limited. The project includes gas production, processing and liquefaction facilities, as well as offshore and onshore pipelines. The gas is sourced from three large gas discoveries: the Hides, Angore, and Juha gas fields, which are likely to have reserves approaching three to four trillion cubic feet. The PNG LNG project will have a lifespan of about 30 years (until 2043). It is estimated to produce 9 trillion cubic feet (TCF) of gas. The gas is conditioned in the PNG Highlands and then transported by gas pipeline to the LNG plant, located approximately 20 kilometres north-west of Port Moresby. The gas is liquefied at the LNG plant prior to loading on to ocean-going tankers to be shipped to Asian gas markets. Shipment of the first LNG cargo began in Q2 2014 and over 87 cargoes have been shipped to date.

We believe that the PNG LNG project is a significant opportunity for HWO to capitalize on the growing drilling activity in the region. Having been operating in PNG for over 10 years, we are confident that HWO's reputation and technical expertise will be extremely advantageous during contract negotiation.

PNG LNG Site

PNG LNG Map, *Source: www.oilsearch.com*

PNG LNG Project Participants	
ExxonMobil PNG Limited	33.2%
Oil Search Limited	29.0%
National Petroleum Company of PNG (PNG Government)	16.8%
Santos	13.5%
Nippon Oil	4.7%
MRDC (PNG landowners)	2.8%

Top Tier Assets

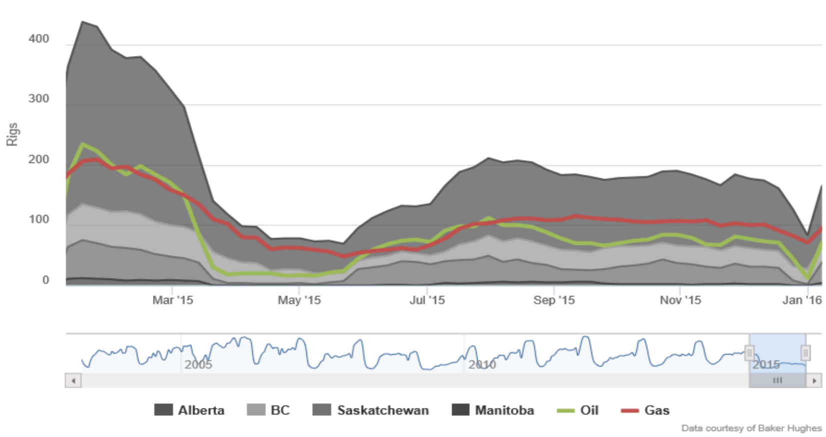
HWO currently operates the two newest and most advanced heli-portable rigs in the country, as evident below.

Type of Rigs	Owner / Operator	Details	Classification
Heli Portable Drilling Rigs	**OSL / High Arctic**	**2 Rigs (103 / 104)**	**Tier 1**
	High Arctic	**2 Rigs (115 / 116)**	**Tier 1**
	Contractor A	1 Rig circa mid 1970's	Tier 2
	Contractor B	1 Rig modified for limited heli use	Tier 2
	Operator	1 Rig	
Heli-Portable Work Over Rigs	**High Arctic**	**1 Rig (102)**	**Tier 1-HWO**
Land Rigs	Contractor C	2 Land Based Rig	N/A
	Operator	1 Land Based Rig	N/A

HWO's drilling rigs are tier 1 rigs, which are high performance and highly mobile rigs. Furthermore, they are of newer design and manufacture. As such, HWO is well-positioned to better serve its customers compared to its competitors, all of whom have tier 2 rigs, some of which date back to 1970s.

Western Canada Market Landscape

Baker Hughes Rig Count



High Arctic's Canadian operations depend on the overall drilling and well completion activity in the industry, which is driven by the level of spending by oil and natural gas companies. As such, HWO's Canadian business is cyclical as activity of oil and gas companies are linked to oil and natural gas prices.

As anticipated, upstream oil and natural gas companies are cutting back on spending as oil prices continue to remain below $40 per barrel. As such, rig counts in Canada have declined to 83 rigs, a 125 decrease from January, 2014. Consequently, HWO's Canadian revenues declined by 26% for the nine months ended September 2014. However, this decrease was more than offset by the PNG revenues.

Catalysts

Potential M&A activity

Starting in June 2015, HWO began accumulating short term investments in select public companies that it believes are "strategic opportunities" at a cost of $16.5 million. Though this investment declined in value by $4.1 million to $12.4 million due to weak market conditions, we believe that management will be able to find accretive acquisition opportunities due to Mr. Peters' extensive prior experience in M&A.

Revenue from Rig 116

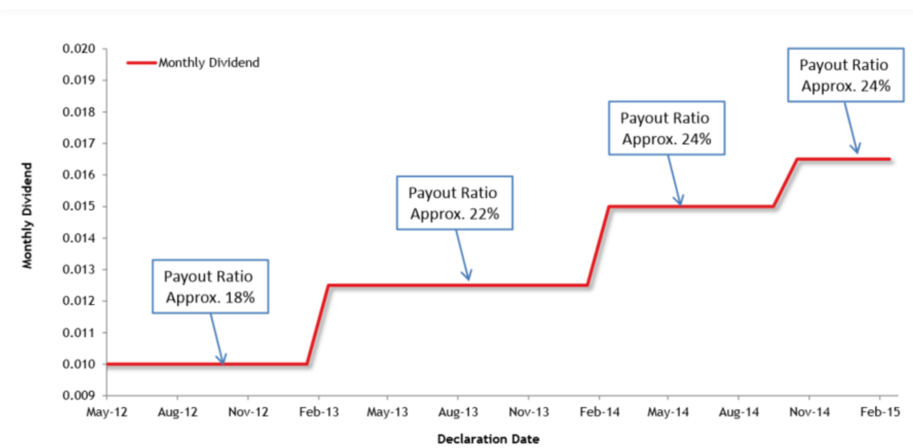
Rig 116, acquired in 2014, will begin a full day rate two-year take or pay contract in mid-2016, which is expected to generate over $30 million in annual revenue. We believe that this will serve as a significant catalyst for HWO going forward as we expect that the market will recognize the consistent and organic growth profile of the company.

Share buyback

In January, 2015, HWO received approval to acquire and cancel up to 5% of the company's issued and outstanding common shares under a Normal Course Issuer Bid (the "Bid"). The Bid commenced on January 12, 2015 and is valid for one year. As of November 11, 2015, 1,232,983 shares have been purchased and cancelled at a cost of $4.5 million.

On January 6, 2016, the company announced that it has renewed the normal course issuer bid with the Toronto Stock Exchange to continue conducting share buyback. According to the company's press release, "Management of the Corporation believes that from time to time the market price of High Arctic common share may not reflect their underlying value and that, at such times, the purchase of common shares for cancellation will increase the proportionate interest of, and be advantageous to, all remaining shareholders."

Dividend hike



HWO has been consistently increasing its dividend every year since 2012. We believe that the company may again increase its dividend in 2016. However, this may depend on how much funds the company will have remaining after a potential acquisition.

Management Team

In 2014, HWO appointed key new executive members: the Chief Executive officer, the Chief Financial Officer, and the President of International Operations. The company appointed Tim Braun to become the new CEO to take over the Calgary office. Mr. Braun has a combined experience of 33 years in the oil and gas sector and has served as a senior executive at Saxon Energy and Precision Drilling. Mr. Braun's total compensation in 2014 was $846,855, $163,731 of which comprised of his base salary.

In addition, HWO also appointed Brian Peters to replace Ken Olson as the new CFO. Mr. Peters has nearly 20 years of experience in finance and management roles, including Chief Financial Officer roles in a number of public and private oilfield service companies. According to Tim Braun, "[Brian's] merger and acquisition experience in the energy services sector will be especially beneficial as High Arctic expands its business." WestPeak believes that Mr. Peters brings significant value to the company as it continues to evaluate and purchase stocks in select public companies.

Lastly, Darren Greer joined HWO in October as President of International Operations. Darren is a professional engineer and spent the past 4 years as an executive with Easternwell, an Australian oilfield services contractor and most recently with Santos, a major Australian energy company. Mr. Greer's total compensation in 2014 was $512,190, $87,176 of which comprised of his base salary. We believe that Mr. Greer's experience with oilfield companies in the region will be advantageous to HWO as the company plans to grow aggressively into PNG.

Risks

Customer Concentration and Contract Risk

HWO's revenues from Rig 103 and Rig 104 accounted for approximately 75% of the company's revenue in 2014. As such, HWO is exposed to significant adverse impact should the company lose this contract with Oil Search Limited. However, HWO has provided services to the customer for the past 8 years and a high level of operational integration exists between both parties with respect to drilling activity. HWO is currently in active negotiation with OSL to renew the contracts for Rig 103 and Rig 104, which will expire in Q2 2016.

Commodity Price Risk

Commodity prices affect the levels of drilling activity, particularly with respect to natural gas, which primarily affects HWO's Canadian business. As such, any fluctuations in oil or natural gas prices could materially negatively affect HWO's financial condition. However, HWO has mitigated this exposure by diversifying its operations to PNG.

Risk of Foreign Operations

Given the company's presence in PNG, which displays characteristics of an emerging market, HWO is exposed to a variety of risks including currency fluctuations, devaluations and exchange controls, and inflation. Furthermore, the company may be materially impacted by adverse unfavourable political and economic conditions arising from changes in legislature and regulations. To mitigate these risks, HWO employs personnel with extensive experience in the international marketplace, supplemented with qualified local staff.

Shareholder Base & Liquidity

Ownership Summary

Ownership Summary 1			
Type	**Common Stock Equivalent Held**	**% of Total Shares Outstanding**	**Market Value (CAD in mm)** [2]
Institutions [5]	1,163,755	2.14	4.0
Individuals/Insiders	4,065,367	7.46	13.9
Hedge Fund Managers (>5% stake)	21,916,634	40.23	75.2
Public and Other [3]	27,338,513	50.18	93.8
Total	54,484,269	100.00 [6]	186.9

Top Holders 1				
Holder	**Common Stock Equivalent Held**	**% of Total Shares Outstanding**	**Market Value (CAD in mm)** [2]	**Position Date**
Cyrus Capital Partners, L.P.	21,916,634	40.23	75.5	Mar-31-2015
Binnion, Michael Rupert	1,816,867	3.33	6.3	Mar-31-2015
Sykora, Dennis Frank	1,082,500	1.99	3.7	Dec-17-2015
PenderFund Capital Management Ltd.	639,100	1.17	2.2	Jun-30-2015
RBC Global Asset Management Inc.	451,584	0.83	1.6	Jun-30-2015

As seen above, a small portion (2.14%) of HWO's stocks are owned by asset management firms such as RBC Global Asset Management and PenderFund Capital Management. This relatively small institutional ownership can be attributed to the fact that most asset managers are restricted to invest in companies with less than $200 million in market capitalization. This represents an opportunity for prospective retail investors to buy and hold HWO until the company reaches the institutional threshold to begin capitalizing on market traction.

It is important to note that Cyrus Capital Partners (CCP), a New York-based hedge fund, is a significant shareholder of HWO. Daniel Bordessa, Managing Director and Partner of CCP, currently sits on HWO's Board of Directors. Given that CPP holds approximately 40% interest in HWO, the company may be in a position to be influenced by CPP's votes and actions.

Liquidity

HWO's stocks are actively traded with a 30-day average trading volume of 65,528 shares. Though this amount is not sufficient for large stock purchases by institutional investors, HWO's stocks are sufficiently traded for retail investors. We believe that HWO's liquidity will increase significantly in the future as the company carries out its normal course issuer bid to repurchase shares.

Valuation

Discounted Cash Flow Analysis (DCF)

Our DCF valuation yielded a share price of $7.60, an implied upside of 129.4%. In determining this share price, we first projected HWO's unlevered free cash flow over a period of 5 years based on assumptions determined from historical metrics as well as forward-looking qualitative analyses (Exhibit 1, 2, and 4). We then determined the company's terminal value by applying a 5.3x EV/EBITDA multiple, which is obtained from the comparable company analysis, to the company's terminal year EBITDA. We then used the Weighted Average Cost of Capital (WACC) to determine the discount rate, 10.8%. Using WACC, we discounted the company's projected cash flows and terminal value to their present values (Exhibit 4). The enterprise value and equity value are then calculated to be $392.3M and $413.8M, respectively. We then divide the equity value with the total number of shares outstanding to arrive at a share price of $7.60.

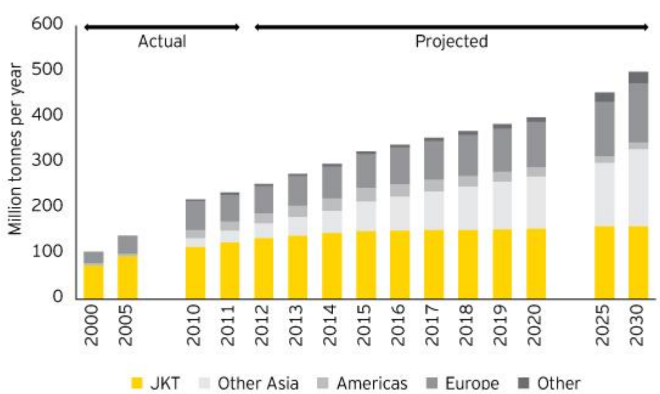
Comparable Company Analysis (CCA)

Our selection criteria for the CCA is based on oilfield services and drillers in Canada. As seen in Exhibit 5, HWO currently trades significantly below its peers on a 2015E EV/EBITDA basis at 2.7x compared to the industry average of 5.3x. Given HWO's pristine balance sheet, solid yield, growing operations, and industry leading ROIC (20.4% in 2015), we believe that HWO should trade at or above its peer average.

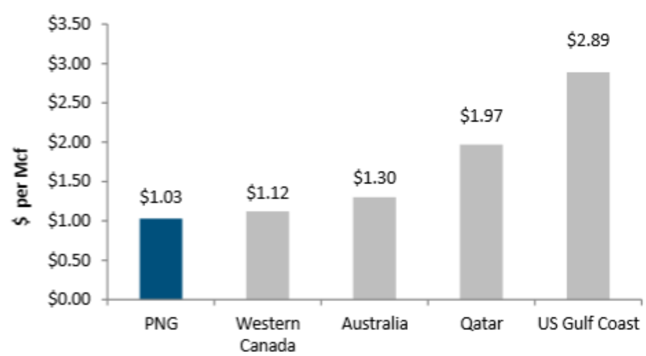
Investment Thesis

Growing PNG LNG Demand

Global LNG Demand



Estimated Shipping Cost to Japan

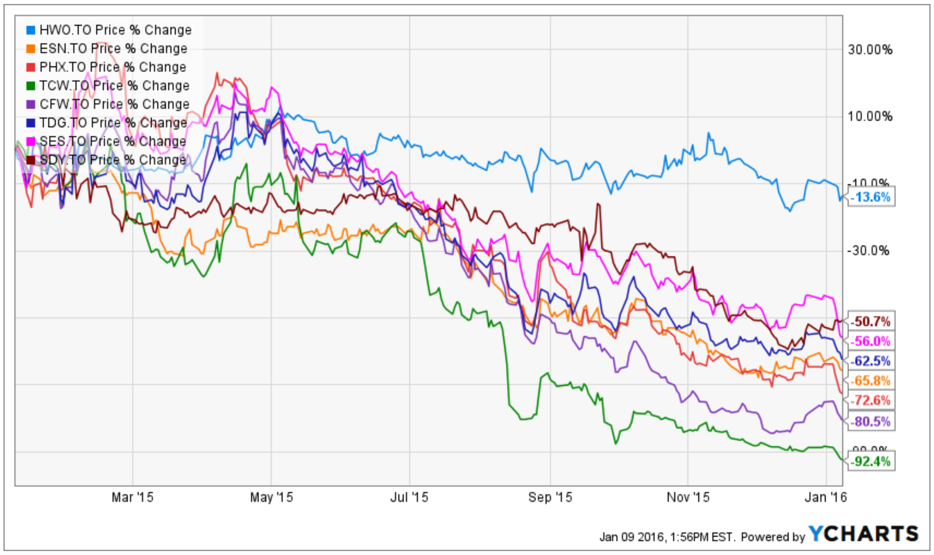


Source: Unit Economics, Forbes

We believe that PNG's close proximity to major emerging economies will continue to attract supermajors to establish exploration and development projects in the country. This is due to three main reasons. First, PNG offers the lowest shipment cost to Asian markets. Second, we believe that demand for LNG will continue to rise as countries such as Japan, South Korea, Taiwan, China, and India are expected to remain the backbone of the global LNG market. Furthermore, we believe that governments in the South Asia region will slowly phase out coal as an energy source due to environmental concerns. Last, the PNG government is receptive to foreign capital investment, especially for LNG projects as the country strives to become a significant energy exporter.

As such, we believe that HWO will significantly benefit from the growing demand for well and drilling services in PNG.

Diversified Operations



As oil prices continue to linger in the sub-$40 territory, many Canadian upstream oil and gas companies are cutting back on drilling activity and other capital expenditures. As such, Canadian oilfield services companies, whose revenue depend on upstream companies, are also negatively impacted. This notion is evident in the graph on the left which displays the price performance of HWO and its competitors. It is clearly observed that HWO's stock has declined by only 13.6% compared to an average decline of 68.6% among HWO's competitors. This relatively minor price decline can be attributed to HWO's diversified operations, which serves as a cushion for any fluctuations in oil and natural gas prices. This unique mix of operation makes HWO a very attractive candidate for investors seeking limited downside with foreseeable upside.

Barriers to Entry

Though PNG is an independent country with established democracy and a stable business jurisdiction, foreign corporations remain reluctant to establish operations in the country due to sporadic political upheavals and tribal disputes. Though this is certainly a risk, it is also an opportunity for HWO to continue expanding its presence in PNG. Furthermore, given that the company has been operating for over 10 years in PNG, HWO has established its reputation as a leading drilling services provider in the region. In addition, the company has the most advanced and newest rigs in the country, which makes HWO an attractive company to do business with.

Recommendation

We are initiating a Buy rating on HWO with a target price of $7.50 per share. We believe that the current valuation of 2.3x 2016 EV/EBITDA is not justified due to three main reasons. First, HWO has a leading market position in PNG and benefits from multi-year contracts which provide visibility. Second, HWO is well-capitalized and has minimal leverage. Lastly, the company is poised to take advantage of the growing demand for LNG in Asia given its fleet of advanced drilling rigs. Our bullish stance on HWO is driven by the DCF valuation of $7.50 and target 2016 P/E of 10.0x.

Appendix

Exhibit 1: Key Assumptions

High Arctic Energy Services (HWO:TSX)
Key Assumptions
($ in millions, fiscal year ending December 31)

	Historical Period							Projected Period					
	2008A	2009A	2010A	2011A	2012A	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Canada Revenue (% growth)	-	-48.9%	43.8%	20.2%	0.4%	-13.6%	18.4%	-34%	4%	4%	3%	3%	3%
PNG Revenue (%growth)	-	3.4%	-17.4%	2.4%	23.4%	13.0%	10.4%	39%	15%	13%	13%	10%	10%
COGS (% sales)	67.7%	69.1%	64.8%	67.8%	66.3%	66.4%	64.4%	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%
SG&A (% sales)	9.4%	6.4%	6.5%	6.0%	6.6%	6.4%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%
Other expenses (% sales)	5.7%	13.1%	9.6%	7.9%	7.6%	7.3%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%
D&A (% sales)	8.8%	7.6%	6.5%	6.8%	6.6%	8.1%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Capital Expenditures (% sales)	13.7%	2.9%	6.9%	11.6%	13.6%	14.3%	32.4%	20.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Tax Rate	NA	NA	29.2%	15.9%	17.1%	16.9%	17.1%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%

Exhibit 2: Working Capital Projections

High Arctic Energy Services (HWO:TSX)
Working Capital Projections
($ in millions, fiscal year ending December 31)

	Historical Period							Projected Period					
	2008A	2009A	2010A	2011A	2012A	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Sales	$145.0	$122.6	$119.3	$127.2	$146.2	$152.7	$171.8	$203.5	$230.6	$257.6	$287.6	$313.9	$342.7
Cost of Goods Sold	$98.1	$84.7	$77.3	$86.2	$97.0	$101.4	$110.6	$130.3	$147.6	$164.8	$184.1	$200.9	$219.3
Current Assets													
Accounts Receivable	$26.5	$14.5	$16.0	$19.2	$19.0	$21.9	$20.6	$24.43	$27.67	$30.91	$34.51	$37.66	$41.12
Inventories	$2.1	$2.8	$2.5	$3.4	$3.6	$3.7	$5.0	$5.89	$6.67	$7.45	$8.32	$9.08	$9.91
Prepaid Expenses & Other	$1.1	$1.1	$0.6	$0.7	$0.7	$0.7	$0.8	$1.02	$1.15	$1.29	$1.44	$1.57	$1.71
Total Current Assets	**$29.7**	**$18.4**	**$19.1**	**$23.3**	**$23.3**	**$26.3**	**$26.4**	**$31.33**	**$35.49**	**$39.65**	**$44.27**	**$48.31**	**$52.75**
Current Liabilities													
Accounts Payable	$20.1	$14.9	$4.5	$6.4	$6.8	$9.0	$9.3	$10.96	$12.41	$13.86	$15.48	$16.90	$18.45
Accrued Liabilities	-	-	$6.7	$5.2	$7.8	$6.5	$8.3	$9.16	$10.38	$11.59	$12.94	$14.12	$15.42
Other Current Liabilities	$1.5	$7.3	–	–	$0.5	$0.6	$0.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Current Liabilities	**$21.6**	**$22.2**	**$11.2**	**$11.6**	**$15.1**	**$16.1**	**$18.5**	**$20.12**	**$22.79**	**$25.45**	**$28.42**	**$31.02**	**$33.87**
Net Working Capital	**$8.1**	**-$3.8**	**$7.9**	**$11.7**	**$8.2**	**$10.2**	**$7.9**	**$11.22**	**$12.70**	**$14.19**	**$15.85**	**$17.29**	**$18.88**
% sales	*5.6%*	*-3.1%*	*6.6%*	*9.2%*	*5.6%*	*6.7%*	*4.6%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*
Increase/Decrease in NWC		**-$11.9**	**$11.7**	**$3.8**	**-$3.5**	**$2.0**	**-$2.3**	**$3.32**	**$1.49**	**$1.49**	**$1.65**	**$1.45**	**$1.59**
Assumptions													
Days Sales Outstanding	66.7	43.2	49.0	55.1	47.4	52.3	43.8	43.8	43.8	43.8	43.8	43.8	43.8
Days Inventory Held	7.8	12.1	11.8	14.4	13.5	13.3	16.5	16.5	16.5	16.5	16.5	16.5	16.5
Prepaids & Other CA (% sales)	0.8%	0.9%	0.5%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Days Payable Outstanding	74.8	64.2	21.2	27.1	25.6	32.4	30.7	30.7	30.7	30.7	30.7	30.7	30.7
Accrued Liabilities (% sales)	-	-	5.6%	4.1%	5.3%	4.3%	4.8%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Other Current Liabilities (% sales)	1.0%	6.0%	-	-	-	-	-	0%	0%	0%	0%	0%	0%

Exhibit 3: Weighted Average Cost of Capital (WACC)

High Arctic Energy Services (HWO:TSX)

Weighted Average Cost of Capital

($ in millions, fiscal year ending December 31)

WACC Calculation	
Capital Structure	
Debt-to-Total Capitalization	4.7%
Equity-to-Total Capitalization	95.3%
Cost of Debt	
Cost of Debt	4.0%
Tax Rate	20.0%
After-tax Cost of Debt	**3.2%**
Cost of Equity	
Risk-free Rate	1.32%
Historical Market Return	7.00%
Beta	0.81
Cost of Equity	**5.92%**
Size Premium	5%
WACC	10.8%

Exhibit 4: Discounted Cash Flow Analysis (DCF)

High Arctic Energy Services (HWO:TSX)

Discounted Cash Flow Analysis

($ in millions, fiscal year ending December 31)

	Historical Period							Projected Period					
	2008A	**2009A**	**2010A**	**2011A**	**2012A**	**2013A**	**2014A**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Operating Data													
Canada Revenue	$53.2	$27.2	$39.1	$47.0	$47.2	$40.8	$48.3	$31.9	$33.2	$34.5	$35.5	$36.6	$37.7
% growth	-	*-48.9%*	*43.8%*	*20.2%*	*0.4%*	*-13.6%*	*18.4%*	*-34.0%*	*4.0%*	*4.0%*	*3.0%*	*3.0%*	*3.0%*
PNG Revenue	$91.7	$94.8	$78.3	$80.2	$99.0	$111.9	$123.5	$171.7	$197.4	$223.1	$252.1	$277.3	$305.0
% growth	-	*3.4%*	*-17.4%*	*2.4%*	*23.4%*	*13.0%*	*10.4%*	*39.0%*	*15.0%*	*13.0%*	*13.0%*	*10.0%*	*10.0%*
Other Revenue	$0.1	$0.6	$1.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
% growth	-	*500.0%*	*216.7%*	*-100.0%*	-	-	-	-	-	-	-	-	-
Sales	$145.0	$122.6	$119.3	$127.2	$146.2	$152.7	$171.8	$203.54	$230.57	$257.56	$287.59	$313.87	$342.69
% growth	-	*-15.4%*	*-2.7%*	*6.6%*	*14.9%*	*4.4%*	*12.5%*	*18.5%*	*13.3%*	*11.7%*	*11.7%*	*9.1%*	*9.2%*
Cost of Goods Sold	$98.1	$84.7	$77.3	$86.2	$97.0	$101.4	$110.6	$130.27	$147.56	$164.84	$184.06	$200.87	$219.32
% sales	*67.7%*	*69.1%*	*64.8%*	*67.8%*	*66.3%*	*66.4%*	*64.4%*	*64.0%*	*64.0%*	*64.0%*	*64.0%*	*64.0%*	*64.0%*
Gross Profit	**$46.9**	**$37.9**	**$42.0**	**$41.0**	**$49.2**	**$51.3**	**$61.2**	**$73.28**	**$83.00**	**$92.72**	**$103.53**	**$112.99**	**$123.37**
% margin	*32.3%*	*30.9%*	*35.2%*	*32.2%*	*33.7%*	*33.6%*	*35.6%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*
SG&A	$13.7	$7.8	$7.7	$7.6	$9.6	$9.8	$11.9	$14.0	$15.9	$17.8	$19.8	$21.7	$23.6
% sales	*9.4%*	*6.4%*	*6.5%*	*6.0%*	*6.6%*	*6.4%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*
Other expenses	$8.20	$16.10	$11.50	$10.10	$11.10	$11.10	$14.00	$16.5	$18.7	$20.9	$23.3	$25.4	$27.8
% sales	*6%*	*13%*	*10%*	*8%*	*8%*	*7%*	*8%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*
Operating Income	**$25.0**	**$14.0**	**$22.8**	**$23.3**	**$28.5**	**$30.4**	**$35.3**	**$42.7**	**$48.4**	**$54.1**	**$60.4**	**$65.9**	**$72.0**
% margin	*17.2%*	*11.4%*	*19.1%*	*18.3%*	*19.5%*	*19.9%*	*20.5%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*
D&A	$12.8	$9.3	$7.8	$8.7	$9.7	$12.3	$12.8	$15.3	$17.3	$19.3	$21.6	$23.5	$25.7
% sales	*8.8%*	*7.6%*	*6.5%*	*6.8%*	*6.6%*	*8.1%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*
EBITDA	**$37.8**	**$23.3**	**$30.6**	**$32.0**	**$38.2**	**$42.7**	**$48.1**	**$58.0**	**$65.7**	**$73.4**	**$82.0**	**$89.5**	**$97.7**
% margin	*26.1%*	*19.0%*	*25.6%*	*25.2%*	*26.1%*	*28.0%*	*28.0%*	*28.5%*	*28.5%*	*28.5%*	*28.5%*	*28.5%*	*28.5%*
Taxes	-	-	$6.66	$3.70	$4.87	$5.14	$6.04	$8.5	$9.7	$10.8	$12.1	$13.2	$14.4
EBIAT	-	-	**$16.14**	**$19.60**	**$23.63**	**$25.26**	**$29.26**	**$34.20**	**$38.74**	**$43.27**	**$48.32**	**$52.73**	**$57.57**
Plus: D&A								$15.3	$17.3	$19.3	$21.6	$23.5	$25.7
Less: Capex								-$50.89	-$34.59	-$38.63	-$43.14	-$47.08	-$51.40
Less: Increase in NWC								-$3.3	-$1.5	-$1.5	-$1.7	-$1.4	-$1.6
Unlevered Free Cash Flow								**-$4.74**	**$19.95**	**$22.47**	**$25.09**	**$27.74**	**$30.28**
WACC	10.8%												
Discount Period								0.5	1.5	2.5	3.5	4.5	5.5
Discount Factor								0.95	0.86	0.77	0.70	0.63	0.57
Present Value of Free Cash Flow								**-$4.50**	**$17.11**	**$17.39**	**$17.53**	**$17.49**	**$17.23**

Enterprise Value	
Cumulative PV of FCF	**$82.2**
Terminal Value	
Terminal Year EBITDA (2020E)	$97.7
Exit Multiple	5.3x
Terminal Value	**$517.6**
Discount Factor	0.60
PV of Terminal Value	**$310.1**
% of Enterprise Value	*79%*
Enterprise Value	**$392.3**

Implied Equity Value and Share Price	
Enterprise Value	$392.3
Less: Total Debt	$0.0
Less: Preferred Securities	$0.0
Less: Non-controlling interest	$0.0
Plus: Cash & Cash Equivalents	$21.5
Implied Equity Value	$413.8
Basic Shares Outstanding	54.5
Implied Share Price	**$7.6**
Current Share Price	$3.31
Implied Upside	129.4%

Implied Share Price						
		Exit Multiple				
		3.3x	**4.3x**	**5.3x**	**6.3x**	**7.3x**
WACC	**9.9%**	$5.6	$6.8	$7.9	$9.0	$10.1
	10.4%	$5.5	$6.6	$7.7	$8.8	$9.9
	10.9%	$5.4	$6.5	$7.6	$8.6	$9.7
	11.4%	$5.3	$6.4	$7.4	$8.4	$9.5
	11.9%	$5.2	$6.2	$7.3	$8.3	$9.3

Exhibit 5: Comparable Company Analysis (CCA)

High Arctic Energy Services (HWO:TSX)
Comparable Company Analysis
($ in millions, fiscal year ending December 31)

							2015E						
Company	**Price**	**Mkt-Cap**	**Cash**	**T. Debt**	**EV**	**Sales**	**EBITDA**	**EBIT**	**Net Income**	**EV/Sales**	**EV/EBITDA**	**EV/EBIT**	**P/E**
Essential Energy Services	0.51	64.20	0.00	35.00	99.20	186.00	23.00	-1.00	-4.00	0.53	4.31	NA	NA
Ensign Energy Services	6.60	1010.00	44.00	797.00	1763.00	1408.00	309.00	16.00	0.00	1.25	5.71	110.19	NA
Precision Drilling	4.66	1365.00	439.00	2115.00	3041.00	1596.00	481.00	-27.00	-101.00	1.91	6.32	NA	NA
Savanna Energy Services	1.19	107.00	18.00	309.00	398.00	437.00	99.00	-7.00	-19.00	0.91	4.02	NA	NA
Trinidad Drilling	1.80	400.00	25.00	680.00	1055.00	545.00	182.00	31.00	-35.00	1.94	5.80	34.03	NA
Western Energy Services	3.23	238.00	57.00	265.00	446.00	228.00	60.00	23.00	-3.00	1.96	7.43	19.39	NA
Xtreme Drilling and Coil	1.65	137.00	17.00	110.00	230.00	224.00	60.00	-6.00	-35.00	1.03	3.83	NA	NA
High Arctic Energy Services	**3.31**	**180.00**	**34.00**	**9.00**	**155.00**	**214.00**	**62.00**	**46.00**	**35.00**	**0.72x**	**2.50x**	**3.37x**	**5.14x**
High										2.0x	7.4x	110.2x	0.0x
Average										**1.4x**	**5.3x**	**54.5x**	**0.0x**
Median										**1.3x**	**5.7x**	**34.0x**	**0.0x**
Low										0.5x	3.8x	19.4x	0.0x

Sources

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Vasant Jain | Contact@westpeakresearch.com

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Vasant Jain
Chief Editor, Analyst

WestPeak Research Association
contact@westpeakresearch.com