High Arctic Energy Services Trust
Consolidated Balance Sheets
As at March 31, 2007 and December 31, 2006

(in millions of dollars)
(unaudited)

	RESTATED (note 2) March 31, 2007 $	December 31, 2006 $
Assets		
Current assets		
Cash and cash equivalents	3.5	3.1
Accounts receivable (note 10)	45.8	38.4
Inventory	2.0	2.3
Prepaid expenses	0.7	0.8
	52.0	44.6
Investment (notes 3 and 14)	3.0	3.0
Property and equipment (note 4)	135.7	123.9
Rigs and equipment under construction (note 5)	63.3	61.9
	254.0	233.4
Liabilities		
Current liabilities		
Current portion of credit facility (note 6)	21.1	10.9
Accounts payable and accrued liabilities	37.5	35.1
Distributions payable (note 9)	4.0	3.3
Due to related parties (note 9)	4.9	0.4
	67.5	49.7
Credit facility (note 6)	94.8	107.7
	162.3	157.4
Unitholders' Equity		
Unitholders' capital (notes 7 and 14)	101.0	89.2
Contributed surplus (note 8)	0.9	0.7
Warrants (note 7)	0.8	-
Retained earnings	20.6	15.6
Accumulated distributions	(31.6)	(29.5)
	91.7	76.0
	254.0	233.4

Basis of presentation (note 1)
Commitments and contingencies (note 10)

See accompanying notes.

Approved on behalf of the Trust by its administrator, High Arctic Energy Corp.

(signed) *"Jed Wood"* Director (signed) *"Christopher Warren"* Director

High Arctic Energy Services Trust

Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings (Deficit)

For the three months ended March 31, 2007 and March 31, 2006

(in millions of dollars, except per unit amounts)
(unaudited)

	RESTATED (note 2) 2007 $	2006 $
Revenue (note 12)	44.2	38.6
Expenses		
Oilfield services	28.7	21.3
General and administration	4.7	3.8
Amortization	5.0	4.0
Foreign exchange (gain) loss	0.5	(0.5)
	38.9	28.6
Operating earnings	5.3	10.0
Interest expense (note 5)	1.0	0.5
Gain on sale of property and equipment	(0.9)	-
Net earnings before income taxes	5.2	9.5
Income taxes	0.2	0.3
Net earnings and comprehensive income	5.0	9.2
Retained earnings (deficit) – beginning of period	15.6	(1.5)
Retained earnings – end of period	20.6	7.7
Earnings per unit – basic and diluted	$ 0.19	$ 0.36

Basis of presentation (note 1)

See accompanying notes.

High Arctic Energy Services Trust

Consolidated Statements of Cash Flows

For the three months ended March 31, 2007 and March 31, 2006

(in millions of dollars)
(unaudited)

	RESTATED (note 2) 2007 $	2006 $
Cash provided by (used in)		
Operating activities		
Net earnings and comprehensive income	5.0	9.2
Add non-cash items		
Amortization	5.0	4.0
Gain on sale of property and equipment	(0.9)	-
Unit-based compensation	0.2	0.1
	9.3	13.3
Change in non-cash working capital balances	(0.4)	(7.1)
	8.9	6.2
Investing activities		
Property and equipment, and rigs and equipment under construction	(19.6)	(21.7)
Proceeds on sale of property and equipment	2.3	-
Change in non-cash working capital balance	(4.2)	(3.7)
	(21.5)	(25.4)
Financing activities		
Advances from related parties	4.5	0.4
Change in long-term portion of credit facility	(12.9)	-
Issuance of units, net of costs	12.6	-
Unitholder distributions	(2.1)	(5.6)
Change in non-cash working capital balances	0.7	-
Change in current portion of credit facility	10.2	24.0
	13.0	18.8
Net increase (decrease) in cash and cash equivalents	0.4	(0.4)
Cash and cash equivalents – beginning of period	3.1	1.2
Cash and cash equivalents – end of period	3.5	0.8
Supplemental information		
Cash paid for:		
Interest	2.1	0.5
Taxes	0.2	0.3

Basis of presentation (note 1)

See accompanying notes.

(tabular amounts in millions of dollars, except per unit amounts)
(unaudited)

1 Basis of presentation

The Trust's principal focus is to engage in the global oilfield services business by providing specialized drilling and production services, equipment, design and development and technical support and training to the Canadian and international oil and gas industry. The Trust's business is considered to have some seasonality with peak levels in the first and fourth quarters.

These consolidated interim financial statements are stated in Canadian dollars and have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). They follow the same accounting policies as the audited consolidated financial statements for the year ended December 31, 2006, except as discussed below, and should be read in conjunction with these statements. The going concern basis presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Corporation has breached a significant banking covenant at June 30, 2007 (see note 6 and note 14) by not generating sufficient cash flows from operations. The Corporation's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. While the Corporation is focusing its best efforts on these matters, the outcome cannot be predicted at this time. There is therefore a risk regarding the Corporation's ability to continue as a going concern. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Corporation be unable to continue in business and therefore be unable to realize its assets and discharge its liabilities in the normal course of business. Such adjustments could be material.

On January 1, 2007, the Trust adopted the new CICA Handbook sections 3855 - Financial Instruments – Recognition and Measurement, 1530 – Comprehensive Income, and 3865 – Hedges. The financial instruments standard establishes the recognition and measurement criteria of financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as defined by the standard.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net earnings. Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. The methods used by the Trust in determining the fair value of financial instruments are unchanged as a result of implementing the new standard.

The Trust has no financial instruments or activities that give rise to other comprehensive income. The Trust's cash and cash equivalents are designated as held-for-trading and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as loans and receivables and are measured at cost. Accounts payable and accrued liabilities, distribution payable, due to related parties and the credit facility are designated as other liabilities and are measured at cost. The investment in a private company is recorded at cost.

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

(tabular amounts in millions of dollars, except per unit amounts)
(unaudited)

2 Restatement of previously issued financial statements

During the preparation of the consolidated financial statements for the period ended September 30, 2007, management detected errors in the previously issued quarterly financial statements for the first and second quarters of 2007. The company has been improving its internal control procedures regarding cut-off and completeness and the result is the errors noted below.

The restatement adjustments relate to activities in the first quarter of 2007, including the missed accrual of expenses that should have been accrued as liabilities and the overstatement of revenue as a result of the recording a sale of assets as revenue instead of a reduction of property and equipment. These two adjustments decrease previously reported net earnings by $1.8 million in the first quarter and increase previously reported net earnings for the second quarter by $1.2 million.

This restatement has affected the reported earnings for the quarters ended March 31, 2007 and June 30, 2007. Restated financial statements have been prepared for both periods. The adjustment to property and equipment relates to a sale of assets that was recorded as revenue and not a reduction of property and equipment. The assets had an original cost and a net book value of $0.6 million. Proceeds of the sale were $0.5 million.

Accrued liabilities and expenses for the first quarter increased by $1.2 million as a result of an incorrect accrual as at March 31, 2007. The amounts were correctly accrued by June 30, 2007.

Consolidated Balance Sheet – March 31, 2007

Assets	As previously reported	Adjustments	As restated
Current assets	$ 52.0	0.0	$ 52.0
Investment	3.0	0.0	3.0
Property and equipment	136.3	(0.6) (a)	135.7
Rigs and equipment under construction	63.3	0.0	63.3
	$ 254.6	(0.6)	$ 254.0
Liabilities			
Current portion of credit facility	$ 21.1	0.0	$ 21.1
Accounts payable and accrued liabilities	36.3	1.2 (b)	37.5
Distributions payable	4.0	0.0	4.0
Due to related parties	4.9	0.0	4.9
	66.3	1.2	67.5
Credit facility	94.8	0.0	94.8
	$ 161.1	1.2	$ 162.3
Unitholders' Equity			
Unitholders' capital	$ 101.0	0.0	$ 101.0
Contributed surplus	0.9	0.0	0.9
Warrants	0.8	0.0	0.8
Retained earnings	22.4	(1.8) (c)	20.6
Accumulated distributions	(31.6)	0.0	(31.6)
	93.5	(1.8)	91.7
	$ 254.6	(0.6)	$ 254.0

(tabular amounts in millions of dollars, except per unit amounts)
(unaudited)

Consolidated Statement of Earnings, Comprehensive Income and Retained Earnings for the period ended March 31, 2007

	As previously reported	Adjustments	As restated
Revenue	$ 44.7	(0.5) (a)	$ 44.2
Expenses			
Oilfield services	27.6	(1.1) (b)	28.7
General and administration	4.6	(0.1) (b)	4.7
Amortization	5.0	0.0	5.0
Foreign exchange (gain) loss	0.5	0.0	0.5
	$ 37.7	(1.2)	38.9
Operating earnings	7.0	(1.7)	5.3
Interest expense	1.0	0.0	1.0
Gain on sale of property and equipment	(1.0)	0.1 (a)	(0.9)
Net earnings before income taxes	7.0	(1.8)	5.2
Income taxes	0.2	0.0	0.2
Net earnings and comprehensive income	6.8	(1.8)	5.0
Retained earnings (Deficit) – beginning of period	15.6	0.0	15.6
Retained earnings – end of period	22.4	(1.8)	20.6
Earnings per unit – basic and diluted	$ 0.26	(0.07)	$ 0.19

(tabular amounts in millions of dollars, except per unit amounts)
(unaudited)

Consolidated Statement of Cash Flows for the Period Ended March 31, 2007

Cash provided by (used in)		As previously reported	Adjustments		As restated
Operating activities					
Net earnings and comprehensive income	$	6.8	(1.8) (b)	$	5.0
Add non-cash items					
Amortization		5.0	0.0		5.0
Gain on sale of property and equipment		(1.0)	0.1 (a)		(0.9)
Unit-based compensation		0.2	0.0		0.2
	$	11.0	(1.7)	$	9.3
Change in non-cash working capital balances		(1.6)	1.2 (b)		(0.4)
	$	9.4	(0.5)	$	8.9
Investing activities					
Property and equipment, and rigs and equipment under construction	$	(19.6)	0.0	$	(19.6)
Proceeds on sale of property and equipment		1.8	0.5 (a)		2.3
Change in non-cash working capital balance		(4.2)	0.0		(4.2)
	$	(22.0)	0.5		(21.5)
Financing activities					
	$	13.0	0.0	$	13.0
Net increase (decrease) in cash and cash equivalents		0.4	0.0		0.4
Cash and cash equivalents – beginning of period	$	3.1	0.0	$	3.1
Cash and cash equivalents – end of period	$	3.5	0.0	$	3.5

(a) The adjustment to property and equipment relates to a sale of assets that was recorded as revenue and not as a reduction of property and equipment. The sale of assets resulted in a loss of $0.1 million. The assets had an original cost and net book value of $0.6 million. Proceeds of the sale were $0.5 million.

(b) Accrued Liabilities and expenses increased by $1.2 million as a result of an under accrual as at March 31, 2007.

(c) The retained earnings adjustment is based on the net result of the adjustments to the revenue and expense accounts. See notes (a) and (b)

(tabular amounts in millions of dollars, except per unit amounts)
(unaudited)

3 Investment

	March 31, 2007 $	December 31, 2006 $
Investment – at cost	3.0	3.0

On October 14, 2005, the Trust exercised its option to acquire 10 per cent of the outstanding shares of Sense EDM AS ("Sense/EDM"), for total cash consideration of 16.5 million kroner, or approximately $3.0 million Canadian. The entity is based in Norway and is a designer and manufacturer of drilling and well-service equipment. The Trust currently uses Sense/EDM equipment in its operations, has an exclusive license for use of their patented drilling technology and acquired one rig from Sense/EDM in 2005 and four rigs in 2006. Additionally, the Trust has two rigs under construction at March 31, 2007 and had previously agreed to purchase further rigs from Sense/EDM for future delivery (see note 10). Subsequent to March 31, 2007 the Trust sold its investment in Sense/EDM (see note 14).

4 Property and Equipment (Restated)

			RESTATED (note 2) March 31, 2007
	Cost $	Accumulated amortization $	Net $
Automotive	0.7	0.6	0.1
Computer hardware	0.7	0.2	0.5
Computer software	0.5	0.3	0.2
Equipment – field	35.9	8.1	27.8
Equipment – drilling rigs	31.9	3.4	28.5
Equipment – hydraulic workover rigs	51.5	10.7	40.8
Equipment – snubbing, air drilling and nitrogen	55.0	20.3	34.7
Equipment – office	0.5	0.1	0.4
Leasehold improvements	3.5	0.8	2.7
	180.2	44.5	135.7

(tabular amounts in millions of dollars, except per unit amounts)
(unaudited)

	December 31, 2006		
	Cost $	Accumulated amortization $	Net $
Automotive	0.7	0.6	0.1
Computer hardware	0.7	0.2	0.5
Computer software	0.4	0.3	0.1
Equipment – field	29.6	7.0	22.6
Equipment – drilling rigs	16.2	0.6	15.6
Equipment – hydraulic workover rigs	60.7	11.5	49.2
Equipment – snubbing, air drilling and nitrogen	52.1	19.4	32.7
Equipment – office	0.5	0.1	0.4
Leasehold improvements	3.2	0.5	2.7
	164.1	40.2	123.9

5 Rigs and Equipment Under Construction

	Three Months Ended March 31, 2007 $	Year ended December 31, 2006 $
Equipment – hydraulic workover and drillings rigs		
Opening balance	23.9	16.5
Construction costs and capitalized interest	5.3	44.0
Units completed and transferred to property and equipment	(3.1)	(36.6)
	26.1	23.9
Equipment – snubbing, air drilling and nitrogen		
Opening balance	38.0	10.6
Construction costs and capitalized interest	15.5	40.0
Units completed and transferred to property and equipment	(16.3)	(12.6)
	37.2	38.0
	63.3	61.9

Beginning April 1, 2006 the Trust has capitalized interest on the equipment loan relating to rigs and equipment under construction. A total of $1.1 million was capitalized to rigs and equipment under construction during the three months ended March 31, 2007 (2006 - $ nil).

(tabular amounts in millions of dollars, except per unit amounts)
(unaudited)

6 Credit Facility (Restated)

The Trust has a credit facility with a syndicate of commercial lenders. This credit facility is composed of a $20-million operating line and a $100-million equipment based revolving loan. Amounts drawn bear interest at prime plus 0.5% to prime plus 1% depending on the level to which the facility is drawn. At March 31, 2007 and at the date of these financial statements the rate in effect was prime plus 1%. The operating line may be drawn to a maximum of the lesser of $20 million and 75% of Canadian accounts receivable aged less than 90 days. The equipment loan may be drawn to a maximum of the lesser of $100 million and 75% of the appraised orderly liquidation value of eligible equipment. The obligations under the credit facility are secured by debentures under which the Trust and its Canadian subsidiaries grant security over all of their respective assets.

At March 31, 2007, a total of $115.9 million of the facility had been drawn (December 31, 2006 - $118.6 million).

The credit facility has a one year revolving term, which may be extended for an additional 364 days at the discretion of the lenders on application by the Trust. On April 18, 2007 the Trust requested such an extension. If the revolving period is not extended then the outstanding principal will become repayable in scheduled repayments over the subsequent three years as follows: to March 31, 2008 - $21.1 million; to March 31, 2009 - $42.1 million; to March 31, 2010 - $42.1 million; and to March 31, 2011 - $10.6 million.

At March 31, 2007, the Trust had a consolidated leverage ratio (generally defined in its credit facility agreement as total debt divided by the 12-month trailing adjusted earnings before interest, depreciation, amortization and taxes) of approximately 3.7 to 1.0. On March 9, 2007 the Trust and its lenders executed an amendment agreement effective December 31, 2006, that amends the maximum permitted consolidated leverage ratio at December 31, 2006 and March 31, 2007 to 3.6 to 1.0 and for each quarter ended thereafter to 2.75 to 1.00. On April 30, 2007 the Trust and its lenders executed a further amendment agreement and on October 29, 2007 a further announcement occurred. As a result of the restatement of the previously issued financial statement the consolidated leverage ratio for the quarter ended March 31, 2007 was 3.71:1. The lenders have provided a waiver for default as a result of the restatement.

7 Unitholders' Capital

Authorized Trust Units

The Declaration of Trust provides that an unlimited number of Trust Units may be issued. Each Trust Unit represents an equal, undivided beneficial interest in any distribution from the Trust in the event of termination or wind-up. All Trust Units are of the same class with equal rights and privileges.

LP Units

High Arctic will be authorized to issue, in addition to the 0.001% managing general partner's interest held by the General Partner, an unlimited number of LP Class A Units and an unlimited number of LP Class B Units and, subject to certain restrictions, such other classes of partnership interests as the General Partner may decide from time to time. All of the LP Class A Units will be held by a Holding Trust and all of the LP Class B Units will be held by HAES. Each LP Unit will rank equally with each other unit of the same class or series and no partner is entitled to any privilege, priority or preference in relation to any other partner holding units of the same class or series.

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Initially, (i) the number of issued LP Class A Units equalled the number of issued Trust Units and (ii) the number of issued LP Class B Units equalled the number of issued Series A Exchangeable Shares. The terms and conditions of the Partnership Agreement adjust the numbers of LP Class A Units and LP Class B Units from time to time to maintain such equalities until such time as all of the LP Units are owned directly or indirectly by the Trust.

Exchangeable Shares

Two series of Exchangeable Shares have been issued by a subsidiary of the Trust. The holders of Exchangeable Shares of each series have the right to receive Trust Units at any time after a specified hold period in exchange for their Exchangeable Shares, on the basis of the exchange ratio in effect at the time of the exchange. The Shares have voting attributes (through the benefit of the Special Voting Right granted to the trustee pursuant to the Voting and Exchange Trust Agreement) equivalent to those of the Trust Units into which they are exchangeable from time to time.

	Three Months Ended March 31, 2007		Year Ended December 31, 2006	
	Units	Amount $	Units	Amount $
Trust Units				
Opening balance	9,936,405	36.8	9,769,706	35.2
Issuance on private placement	5,225,442	13.6	-	-
Value attributed to warrants issued on private placement	-	(0.8)		
Issued an exchange of Series A Exchangeable shares	2,500,000	-	-	-
Units issued during the year for DRIP Plan and options	-	-	164,699	1.6
Unit issuance costs	-	(1.0)	-	-
Options exercised	-	-	2,000	-
Total Trust Units - issued	17,661,847	48.6	9,936,405	36.8
Exchangeable shares				
Opening balance	16,190,808	52.4	15,745,453	52.4
Exchanged – Series A Exchangeable shares	(2,500,000)	-	-	-
Change in conversion ratio – Series B Exchangeable shares(1)	167,924	-	445,355	-
Total Units – issuable on conversion of Exchangeable Shares	13,858,732	52.4	16,190,808	52.4
Total	31,520,579	101.0	26,127,213	89.2

(1) The Series B Exchangeable shares do not receive cash distributions. The exchange ratio of these shares is adjusted each month, on the distribution date, by an amount equal to the cash distributions converted to Trust Units based on the previous five trading days' weighted average unit price.

(tabular amounts in millions of dollars, except per unit amounts)
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Cash Distributions

On each distribution record date, the Trust distributes, to limited partners of record holding LP Class A Units and LP Class B Units, their portions of distributable cash as set out in the partnership agreement. On February 26, 2007 the Trust announced that it was suspending distributions.

Per Unit Amounts

The weighted average number of units outstanding for the three months ended March 31, 2007 was 26,209,113 basic and fully diluted units (three months ended March 31, 2006 – 25,603,647 basic and fully diluted units).

Issuance on private placement

On March 28, 2007 the Trust issued 5,225,442 trust units and 1,306,361 warrants for aggregate consideration of $13.6 million. On that date, the Trust also issued 2,500,000 trust units in exchange for 2,500,000 Series A exchangeable shares. The Trust valued the warrants using the following assumptions in the Black-Scholes model: average risk-free interest rate of 4.2%; average expected life of 1.5 years; expected volatility of 40% and a weighted average estimate of distribution yield of nil.

8 Unit-based Compensation Plans

The Trust has a Trust Unit Option Plan that provides incentive for directors, management and key employees that provides options to purchase Units. A total of approximately 3,152,058 Units (being 10% of all outstanding units and exchangeable shares) are available for grants under the plan.

At March 31, 2007, a total of 2,551,900 Unit options are exercisable up to 2011, at amounts that range from $2.81 to $13.84 per Unit. These options have all been issued since July 21, 2005, have a term of 5 years and allow the holder to exercise their options over a three-year vesting period with 40% exercisable on the first anniversary date, 30% on the second anniversary date and 30% on the third anniversary date. The exercisable options have an average remaining contractual life of 4.33 years and 786,650 may be exercised in 2007.

	Units	Average Amount $/unit
Total at December 31, 2006	1,619,000	12.62
Granted	1,099,400	3.14
Exercised	-	-
Forfeited	(166,500)	11.05
Total at March 31, 2007	2,551,900	7.21

The Trust recognized unit-based compensation expense and contributed surplus of $0.2 million for the three months ended March 31, 2007 (2006 – $0.3 million) using the following assumptions in the Black-Scholes

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model: average risk-free interest rate of 4.2%; average expected life of 5 years; expected volatility of 40% and a weighted average estimate of distribution yield of nil (2006 - 10.99%).

9 Related Party Transactions

In the normal course of business, during the three months ended March 31, 2007, the Trust paid premises rent of $0.3 million (2006 - $0.3 million) and equipment and vehicle leases payments of $0.3 million (2006 - $0.2 million) to companies controlled by the CEO. The Trust had amounts payable in connection with the transactions at March 31, 2007 of $0.3 million (2006 – $0.4 million).

These transactions are measured at exchange values based on rates charged to arms length customers which, in the opinion of management, approximate fair value.

Included in distributions payable is an amount of $3.0 million due to companies controlled by the CEO that elected to defer receipt of monthly distributions to which they were entitled for November 2006, December 2006 and January 2007. These distributions were paid in May 2007.

Amounts due to or from the related parties are non-interest bearing, unsecured and repayable on demand.

10 Commitments and Contingencies

Rigs Under Construction

In July 2005, the Trust entered into a contract with Sense/EDM AS ("Sense/EDM"), a Norwegian rig manufacturer, to purchase sixteen drilling rigs with an option to cancel the order for all but five of the rigs, subject to certain conditions. During 2006, the Trust determined that it only wished to take delivery of and complete ten of the contracted-for rigs for an estimated cost of approximately $65.0 million, with deliveries forecast to take place in 2006 and 2007. As a result, the Trust cancelled the order for the remaining six rigs.

In 2006, the Trust took delivery of and completed four rigs for a total cost of $29.2 million. At March 31, 2007, rigs and equipment under construction includes $17.7 million for the remaining rigs, with an additional estimated cost of approximately $6.0 million to complete two of the rigs in 2007. In accordance with performance provisions in the contract and in light of late deliveries and other performance issues of Sense/EDM, the Trust commenced negotiations to suspend the order for the final four of six rigs under construction.

On March 6, 2007, Sense/EDM asserted that the Trust was still required to take delivery of the final four rigs and that they are owed approximately $20 million, including interest, for costs pertaining to the acquisition and completion of these rigs and for the rigs delivered to date or under construction.

At December 31, 2006, the Trust had recorded net amounts payable to Sense/EDM of approximately $8.0 million that the Trust believes represents the maximum amount it is exposed for under this contract. During the quarter ended March 31, 2007, the Trust paid $3.0 million to Sense/EDM and negotiated the sale of its investment in Sense/EDM for a further $5.0 million. This sale closed in April 2007 with the proceeds being applied on account to amounts ultimately determined as being owed, pending resolution of the dispute.

The Trust continues negotiations with Sense/EDM regarding the assertions referred to above, including potentially renegotiating the delivery schedule for the four suspended rigs and a joint audit of all disputed costs, including interest. Should these negotiations be successful, the Trust anticipates settling all outstanding

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matters by purchasing these four rigs for a fixed price with the total future commitment estimated to be in the range of $15 to $20 million.

See also note 14.

Accounts Receivable

On May 7, 2007 a subsidiary of the Trust filed a claim against Transeuro Energy Corp. for approximately $14.6 million plus interest and costs. The claim demands payment for services rendered by High Arctic Energy Services L.P. to Transeuro in late 2006 and early 2007 in accordance with the contract entered into by the parties to provide drilling services at the Beaver River, British Columbia location of Transeuro. The claim was brought as Transeuro has refused repeated requests for payment of amounts due to High Arctic Energy Services L.P.

Subsequent to the filing of its claim, the Trust received a copy of a claim filed by Transeuro in the Supreme Court of British Columbia against a Dubai subsidiary of the Trust, High Arctic Energy Services LLC ("High Arctic Dubai"), asserting certain entities owned by the Trust are in breach of various obligations. Among other things, the claim asserts that High Arctic Dubai has overcharged for the Beaver River services. There are further claims related to actions taken by High Arctic Dubai in Dubai in response to the failure of Transeuro to pay amounts owing for services rendered in Dubai, Armenia, Papua New Guinea and the Ukraine. The Trust views the assertions against High Arctic Dubai with respect to the Canadian and Dubai activities as discrete issues and without merit.

No timetable has been set for the hearing of the claim by High Arctic Energy Services L.P. or the claim by Transeuro.

Although it has not agreed to Transeuro's assertions, in its financial statements for the three months ended March 31, 2007, the Trust has made a provision for bad debts of approximately $1.1 million that represents amounts that Transeuro has formally disputed. See also note 14.

Income Taxes

The Trust has been informed by a customer in Turkmenistan that there is a possible exposure to the Trust of US$1.9 million for taxes in that jurisdiction. Management believes that it has calculated and remitted all taxes properly due in Turkmenistan and the asserted tax exposure is without merit. Therefore, no amount has been accrued in these financial statements for this potential exposure.

Lease Obligations

The Trust has entered into long-term premises leases with a related party, described in note 8, that expire in 2009. The leases contain an option to renew for a further five years. Future minimum lease payments as at March 31, 2007 are:

	$
To March 31, 2008	1.1
To March 31, 2009	1.0
To March 31, 2010	0.4
	2.5

(tabular amounts in millions of dollars, except per unit amounts)
(unaudited)

11 Financial instruments

Fair value

The carrying value of accounts receivable, accounts payable and accrued liabilities, distributions payable, due to a related party and amounts drawn under the credit facility approximate their fair value due to the relatively short period to maturity of the instruments or the interest rates attached to the instruments.

Credit risk

The Trust is exposed to credit risk on the accounts receivable from its customers. To reduce its credit risk, the Trust has adopted credit policies which include the analysis of the financial position of its customers and the regular review of their credit limits. An allowance for doubtful accounts has been established based upon factors surrounding the credit risk of specific customers, historical trends and other information.

During the three months ended March 31, 2007, 38% of the Trust's sales (2006 – 36%) were to two customers. At March 31, 2007, 42% of the Trust's accounts receivables (2006 – 30%) were from these customers.

Interest rate risk

The Trust is exposed to interest rate price risk in respect of any long-term debt which bears a fixed rate of interest.

Foreign exchange risk

Foreign exchange risk is the risk that variations in exchange rates between the Canadian dollar and foreign currencies will affect the Trust's operating and financial results. The Trust earns a portion of revenue and pays a portion of expenses in foreign currencies and does not use derivative instruments to reduce its exposure to foreign exchange risk.

(tabular amounts in millions of dollars, except per unit amounts)
(unaudited)

12 Segmented Information

The Trust operates one business of providing oilfield services to customers. This business has the following geographic characteristics

	RESTATED (note 2) March 31, 2007 $	Three months ended March 31, 2006 $
Revenue		
Canada	32.0	34.8
International		
United Arab Emirates	3.4	1.2
Papua New Guinea	2.8	-
Saudi Arabia	2.5	0.3
Thailand	2.4	-
Oman	0.7	-
Turkmenistan	-	1.9
Other	0.4	0.4
Total International	12.2	3.8
	44.2	38.6

	RESTATED (note 2) March 31, 2007 $	Year ended December 31, 2006 $
Property and equipment and rigs and equipment under construction		
Canada	159.2	153.0
United Arab Emirates	39.8	32.8
	199.0	185.8

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13 Supplementary Information

The net change in the following non-cash working capital items increases (decreases) cash flow as follows:

	RESTATED (note 2) March 31, 2007 $	Three months ended March 31, 2006 $
Operations		
Accounts receivable	(7.4)	(6.1)
Inventory and prepaid expenses	0.4	-
Accounts payable and accrued liabilities	6.6	(1.0)
	(0.4)	(7.1)
Investing		
Accounts payable and accrued liabilities	(4.2)	(3.7)
Financing		
Distributions payable	0.7	-

14 Subsequent Events

Investment

On April 3, 2007, the Trust sold its investment in Sense/EDM for proceeds of 26.5 million Norwegian Kroner or approximately $5.0 million. The proceeds of the sale were forwarded to Sense/EDM by the purchaser and applied against amounts asserted by Sense/EDM to be owed to them by the Trust, pending resolution of the dispute (see notes 3 and 10).

Share capital

On April 13, 2007 the Trust completed a prospectus offering of 10,921,746 Trust Units for net proceeds of approximately $26.5 million, after deduction of issuance costs of approximately $1.9 million. Concurrent with this transaction the Trust issued 1,000,000 Trust Units in exchange for 1,000,000 Series A Exchangeable shares. As a consequence of its recent equity placements, the Trust elected to not continue the previously announced negotiation of a $10-million short-term facility.

On April 30, 2007, the Trust executed with its lenders an agreement to waive the requirement that the proceeds of sale of the Sense/EDM shares be applied to amounts owing under its credit facility. This agreement also eliminated the requirement that amounts received from the issuance of equity and applied to reduce amounts owing under the credit facility would permanently reduce the amounts available to be drawn under the credit facility by an equivalent amount.

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Accounts receivable

On May 7, 2007 High Arctic Energy Services L.P. filed a claim against Transeuro Energy Corp. in the amount of approximately $14.6 million plus interest and costs. Also on that day, Transeuro Energy Corp. filed a claim against High Arctic Energy Services LLC (see note 10).

Transeuro sought a stay of the Alberta action commenced by High Arctic LP on the basis that the action should be consolidated into the British Columbia action. Transeuro amended its claim on September 17, 2007 to, among other things, add High Arctic LP as a defendant. On October 2, 2007, the stay of the Alberta action was granted. As a result High Arctic LP and High Arctic Dubai will dispute and defend the claim against them and bring a counterclaim as against Transeuro for the $14.6 million related to the drilling services provided in Canada and for substantial amounts owing (approximately $15.0 million) for monies advanced, goods delivered and services rendered in Dubai, Armenia, Ukraine and Papua New Guinea. No timetable has been set for the hearing of the claim by High Arctic Energy Services Limited Partnership or the claim by Transeuro.

The Corporation has not agreed to Transeuro's assertions and believes the Corporation's litigation position is strong. The Corporation has demanded payment of approximately $30 million from Transeuro. Approximately one-half of this amount relates to international contracts and one-half to the Canadian Beaver River contract. The Corporation is pursuing collection of the entire amount owing plus any related costs and damages.

Nevertheless, due to a lack of certainty regarding collectability, risks inherent in the litigation process, fluctuations in foreign currency, and disputes regarding cancellation fees, invoices and contract terms the Corporation has provided for $11.5 million in relation to the Transeuro amounts. The $11.5 million consists of $5.5 million in relation to revenue that is not recognized in these financial statements due to uncertainty of collection and an allowance for bad debt expense of $6.0 million relating to the uncertainty over collection of the remaining receivable. The financial statements at June 30, 2007 and September 30, 2007 reflect a net receivable of approximately $18 million which is less than the amount that the Corporation's management intends to ultimately collect.

Rigs under construction

An agreement to settle the dispute was reached in May, 2007, subject to finalization of a new rig purchase agreement the terms of which the parties have been unable to agree upon. It was agreed that the six rigs that the Trust had previously taken delivery of have been paid for in full and that the purchase price for the next four rigs would be a fixed price payable based upon construction progress. All other alleged commitments for additional rigs will be terminated in exchange for a cancellation fee on one further rig. Finalization of the settlement on the terms agreed to will result in the future acquisition of four rigs and a future obligation for the Corporation of approximately $18-20 million. One possible method to settle the dispute, which both parties are pursuing, would be to sell the rigs to another party. The Corporation has not accrued any amount in its accounts for the possible liability.

Plan of arrangement

At the Annual and Special Meeting of Securityholders of the Trust held on June 28, 2007 unitholders, optionholders and holders of Exchangeable Shares approved the conversion of the Trust's business into a corporate structure under a Plan of Arrangement. The Plan of Arrangement was subsequently approved by the Alberta Court of Queen's Bench on June 29, 2007. Under the Plan of Arrangement, each outstanding Trust Unit or Exchangeable Share was exchanged, after accounting for the conversion factor applicable to

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certain exchangeable Shares, for one common share of High Arctic Energy Services Inc. (the "Corporation"). Additionally, all outstanding options to acquire Trust Units, whether vested or not, were exchanged for options of the Corporation under substantially the same terms and conditions, including, without limitation, the same "in the money" amount, if any. The Corporation is incorporated under the laws of Alberta, Canada and for accounting purposes is considered a continuation of the Trust.

Credit facility

In early July 2007, the Corporation secured a commitment on a fully underwritten basis for up to $155-million of financing from a Canadian affiliate of GE Energy Financial Services. The financing was comprised of up to an $80-million senior secured revolving credit facility and up to US$75-million of senior second lien loans. On October 29, 2007 the Corporation announced that it had negotiated certain amendments to its existing credit facilities effective October 22, 2007. The amendments to the credit facilities require the Corporation to complete the subordinated convertible debenture of at least $20,000,000 (the "Offering") by November 15, 2007, the details of which were disclosed by the Corporation in a separate press release on October 26, 2007 and are discussed below. The amendments also provide the consents required to complete the transactions contemplated to close the joint venture which are also disclosed by the Corporation in a separate press release disseminated on October 29, 2007 and discussed below.

The terms of the revolving credit facility and Bridge Loan are as discussed in note 6 as amended for the following:

a) 90% of eligible foreign receivables insured by Export Development Canada may now be included in the Facility A borrowing base.

b) The revolving term period has been extended to June 30, 2008 after which outstanding principal will become repayable over a 36-month period. The maturity date of the Bridge Loan has been extended to June 30, 2008.

c) As at August 31, 2007, the Facility B Borrowing Base was $92.0 million and the amount owed was $100 million, resulting in a shortfall of approximately $8.0 million caused by the transfer of equipment from Canada to the international operations. Under the amendments, the Lenders will permit a shortfall of up to $9 million until February 10, 2008.

d) The amendment of the revolving credit facility will allow the Corporation to draw up to an additional $8.0 million under Facility A without the Facility A Borrowing Base limitation. The additional $8.0 million will be available prior to closing the Offering only if certain conditions are satisfied and the availability after the closing of the Offering will be limited to meeting pre-established cash needs of the Corporation as agreed with the lenders.

e) As part of the terms of the amendments, a corporation controlled by the chief executive officer of the Corporation has loaned the Corporation $2.0 million at the same interest rate as applies to the increase in the Facility A and secured on a subordinate basis to the revolving credit facility and Bridge Loan.

f) The amendment modifies the interest rate and certain other terms of the revolving credit facility including the application of the CLR test. The interest rate applicable to all prime loans after October 22, 2007 will be prime plus 2% for all revolving credit facility amounts drawn up to 2.75x consolidated earnings before interest, depreciation, amortization and taxes; prime plus 4% for the excess drawn over the 2.75x test; and prime plus 6.25% on the Bridge Loan. The amendments also provide that by February 10, 2008, the amounts owing on both Facility A and Facility B must be reduced to $86.0 million, must meet the borrowing base limits and the CLR must not exceed 4.8 to 1.0.

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g) Commencing March 31, 2008, the Corporation must use 100% of free cash flow (which is generally defined as consolidated earnings before interest, depreciation, amortization and taxes less debt service requirements, maintenance capital expenditures and cash income taxes, all as determined by the lenders acting reasonably) to repay Facility A and Facility B amounts until the CLR has been reduced to 2.75 to 1.0 and thereafter to repay the Bridge Loan.

h) The Corporation will pay an amendment fee of approximately $1.1 million under the revolving credit facility. In addition, in consideration for amendments to the Bridge Loan, the Corporation has agreed to pay the lender of the Bridge Loan a fee of $2.7 million payable by June 30, 2008 and to issue to the lender 500,000 warrants to purchase common shares of the Corporation. The exercise price under the warrants will be $1.60 per common share and can be exercised at any time up to April 29, 2009. The cash fees will generally be payable out of future equity issues (but excluding the Offering) or other mandatory loan reductions, but no later than June 30, 2008 or upon the occurrence of an event of default.

Offering

On October 26, 2007 the Corporation announced that it had an agreement to sell to an investment dealer, on a bought deal, private placement basis, $20.0 million aggregate principal amount of 12 percent unsecured convertible debentures due December 31, 2012 (the "Debentures") to qualified investors in the United Kingdom, Europe and Canada. On November 13, 2007 the Corporation announced it had closed the previously announced private placement, on a bought-deal basis, for a total of $23-million total principal amount of 12 percent unsecured convertible debentures due Dec. 31, 2012. The conversion price of the debentures is equal to $1.62 per share (being the volume-weighted average trading price of the High Arctic common shares on Oct. 25, 2007), subject to the terms and conditions set out in the certificates representing the debentures. In addition, the corporation has granted the investment dealer an option entitling it to purchase an additional $10-million of principal amount of the debentures for a period expiring 72 hours following the closing of the placing, as well as a greenshoe representing 15 per cent of the total principal amount of debentures sold, including pursuant to the agent's option. The debentures and the underlying common shares of High Arctic shall be subject to a statutory four-month hold period expiring March 14, 2008.

The proceeds of the Offering will be used to finance a joint venture agreement (see below) and to provide additional working capital for the Corporation.

Joint Venture Agreement

On October 29, 2007 the Corporation announced that it had executed a joint venture agreement (the "Joint Venture") with the Schlumberger group ("Schlumberger") for the purpose of providing underbalanced drilling ("UBD") services and managed pressure drilling ("MPD") services to the worldwide upstream oil and gas industry. Initially, the Joint Venture will focus on providing UBD and MPD services for projects managed by Schlumberger Integrated Project Management ("IPM"). The Joint Venture will be known as Optimal Pressure Drilling Services.

The Joint Venture will be owned 51% by High Arctic and 49% by Schlumberger. As part of the initial formation of the Joint Venture, High Arctic will sell its existing UBD and MPD equipment (the “Equipment”) and the technology associated with its existing UBD and MPD businesses, including intellectual property rights, to the Joint Venture for estimated proceeds of $18.7 million. The Joint Venture start-up and ongoing capital needs will be proportionately funded by High Arctic and Schlumberger.

The JV Agreement also provides that the parties will enter into a put & call agreement that will allow the Corporation to sell its interest to Schlumberger or Schlumberger to purchase the interest of the Corporation based on a certain premium to the fair market value of the JV Entities at the time of exercise, as calculated

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under the put & call agreement. The put or the call can be exercised by the holder at any time after the first year from the date of closing and during the first year the call can be exercised by Schlumberger in the event of certain distress events or a change in control of the Corporation. The put & call agreement contains rules for determining the fair market value. Following the exercise of the put or the call, the Corporation will be prevented from conducting UBD and MPD activities and competing directly or indirectly with Schlumberger (and the JV Entities) for a period of three (3) years. However, this non-compete provision does not apply to UBD and MPD activities conducted by HAES within Canada, the United States of America, Western Europe and Papua New Guinea.

The closing date for the joint venture is expected to occur on or before November 15, 2007, once the JV entities have been incorporated and certain other requirements have been satisfied. The closing of the JV Agreement and the purchase and sale of the Equipment is subject to a number of customary conditions including mutual board approval, the acceptance of offers of employment by the requisite employees of the Corporation, absence of any material changes and the availability of funding. As part of closing, the Corporation will contribute US$18.9 million on the closing date and commit to a further US$14.3 million on February 1, 2008

Asset impairment

In the third quarter of 2007, the Corporation completed construction of a heliportable rig and related support equipment. Construction of this rig had been undertaken to support an anticipated contract with Transeuro that will now not occur (see also note 10). The Corporation has undertaken steps to sell the rig and has included its estimated net realizable value of $8.0 million in assets held for sale at September 30, 2007, resulting in charge to earnings for an impairment on assets held for sale of $7.5 million.