

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of High Arctic Energy Services Inc. (the "Corporation" or "High Arctic") for the year ended December 31, 2008, as compared to the same period in 2007. It also contains information on the Corporation's future outlook based upon currently available information. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2008 (the "Financial Statements").

The discussion and analysis of the financial condition and results of operations presented herein is presented using a continuity of interest accounting basis that recognizes the Corporation is a successor to High Arctic Energy Services Trust (the "Trust").

All amounts are reported in Canadian dollars unless otherwise stated. The financial data presented herein and in the Financial Statements has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") on a going concern basis. 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's ability to continue as a going concern is dependent upon cash flow from operations remaining adequate to meet the cash requirements of the business, notwithstanding an anticipated continuing decline in Canadian oilfield activity, as well as obtaining further extensions of the due date for repayment of its outstanding debt. The Corporation has obtained waivers and amendments to its banking covenants (*see Note 6 of the Financial Statements*) required as a result of not generating sufficient cash flows from operations and not yet completing the asset sales required under the terms of its senior credit facility. The Corporation does not expect to have the ability to repay the \$20.0 million bridge loan due on March 31, 2009. The Corporation must negotiate additional extensions and amendments to its credit facilities and expects that further asset sales will be required to reduce its debt and maintain compliance with the revised terms. While the Corporation is focusing its best efforts on these matters, there are no assurances that management will be successful in such initiatives. There is therefore a significant 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.

The MD&A is dated March 24, 2009.

Corporate Profile

High Arctic is an oilfield services company currently operating primarily in Western Canada, Papua New Guinea and Mexico. Headquartered in Red Deer, High Arctic trades under the symbol HWO on the Toronto Stock Exchange.

The business services are mainly provided in the following areas:

- snubbing services and the supply of nitrogen related to the drilling, completion and workover of natural gas and oil wells primarily in Canada;
- internationally, contract drilling and workover services; and
- managed pressure and underbalanced drilling services, primarily in Mexico, through the Optimal Pressure Drilling Services joint venture .

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

Capitalization

The Corporation's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares.

As at December 31, 2008 there were 42,442,325 issued and outstanding common shares. As at March 24, 2009 there were 45,442,325 issued and outstanding common shares.

A total of 4,544,232 stock options (being 10% of all outstanding shares) are available for grants under the Share Option plan. As at December 31, 2008, a total of 1,186,900 share options were outstanding and expire at various dates up to 2013, at amounts that range from \$0.65 to \$13.57 per share. As at March 23, 2009, there were a total of 4,062,850 share options outstanding.

There were 1,500,000 warrants outstanding as at December 31, 2008 and as at March 24, 2009, with each warrant giving the holder the right to purchase a common share of the Corporation at a price of \$1.09 per share expiring on June 20, 2010.

The common shares trade on the Toronto Stock Exchange under the symbol HWO. The closing price of the shares on March 24, 2009 was \$0.10 per share. Based upon 45,442,325 issued common shares, the Corporation has an approximate market capitalization of \$4.5 million.

Industry Indicators and Market Trends

The following table provides quarterly information to assist with the understanding of the oilfield services industry and the effect volatile commodity prices has on industry activity levels. In addition, the Corporation's international financial results are impacted by fluctuations in foreign exchange rates, in particular the U.S. dollar to Canadian dollar exchange rate.

Average for the period	2008					2007				
	Year	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1
Oil and natural gas prices										
West Texas Intermediate (US \$ /bbl)	\$99.75	\$59.08	\$118.22	\$123.80	\$97.82	\$72.41	\$90.50	\$75.15	\$65.02	\$58.23
AECO (C\$ /Mcf)	\$8.13	\$6.79	\$9.24	\$9.35	\$7.13	\$6.61	\$6.00	\$5.61	\$7.37	\$7.46
Other industry indicators										
Well completions in Western Canada ⁽¹⁾	20729	7912	4683	3148	4986	19162	5212	4128	3232	6590
Gas well drilling in Western Canada ⁽¹⁾	12361	4997	2401	1670	3293	12364	3543	2485	1803	4533
Active drilling rigs in Western Canada ⁽¹⁾	364	385	403	170	498	339	342	336	151	526
Average drilling rig utilization rates ⁽¹⁾	41%	44%	46%	19%	56%	38%	38%	38%	17%	61%
US/Canadian dollar exchange rate	0.938	0.825	0.961	0.990	0.996	0.930	1.019	0.957	0.911	0.854

(1) Source: Canadian Association of Oilwell Drilling Contractors (CAODC)

Increases or decreases in the price of oil and natural gas can materially impact oil and gas company spending for drilling and well completion activities. High Arctic's business activity depends on the overall drilling and well

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

completion activity in the industry and therefore on the level of spending by oil and gas companies. Fluctuations in the oil and gas company spending can materially affect the financial results of the Corporation.

High Arctic's Canadian business, in particular, is more dependent on natural gas well drilling and completions. Average yearly prices for oil and natural gas were higher in 2008 when compared to 2007; however, during the 4th quarter of 2008 these commodity prices dropped significantly, and have dropped further in the first quarter of 2009. The CAODC reported 20,729 wells were completed in Canada during 2008, an increase of 1,567 (8%) wells over 2007, which saw 19,162 wells completed. Gas well completions in 2008 totalled 12,361, which was relatively flat with the 2007 gas well completions of 12,364 for 2007. Although the activity levels during the 4th quarter of 2008 did not drop, the Corporation has seen a significant decline in drilling and completion activity in early 2009. Beginning in the 4th quarter of 2008, High Arctic's Canadian operations began to see pressure from its customers to reduce its day rates. This pricing pressure has continued into 2009. Activity levels were strong in the fall of 2008 but started to decrease towards year end and that decline in activity has carried over into 2009. The reduced activity and the pressure to reduce prices will have an adverse affect on the Corporation's revenue and results from operations.

The Corporation's international operations are more affected by the price of oil than the price of natural gas and by the impact on the specific projects or areas of operations. The Corporation has longer term contracts with its international customers and tends to operate on particular projects, and is therefore less dependent on the day-to-day fluctuations in drilling or completion activity. High Arctic's international customers are also affected by the drop in commodity prices and are reducing their spending and activity levels for 2009. As a result, High Arctic expects to see some decrease in its international revenue for 2009.

Foreign exchange rate fluctuations have an impact on the financial results of the Corporation. The Corporation has significant international operations and the decrease during the 4th quarter of 2008 in the Canadian dollar as compared to the U.S. dollar had a positive impact on the financial results in that quarter. The Corporation estimates that a 1% decrease in the average annual exchange rate of the U.S. dollar for 2008 would have increased net earnings by \$0.5 million.

Financial Highlights

- The Corporation generated \$168.5 million in revenue during 2008; an increase of \$38.4 million (30%) in revenue over the 2007 revenue of \$130.1 million. The increase is attributable to the increased activities in Papua New Guinea and the start-up of Optimal Pressure Drilling Services in Mexico offset by a reduction in Canada and international operations related to the discontinued operations.
- Canadian revenue declined by \$10.8 million, primarily attributable to a non-recurring drilling project in the first quarter of 2007. Revenue from the ongoing Canadian business was fairly stable between years.
- The year 2008 was the first full year of operations in Papua New Guinea, where revenue increased to \$91.7 million from \$32.1 million as three rigs were operating for most of the year.
- Optimal Pressure Drilling Services, a 51% owned joint venture with the Schlumberger group, commenced business operations on January 1, 2008. Over 90% of the joint venture's revenue for 2008 was earned in Mexico. High Arctic's share of the loss for 2008 was \$4.8 million, excluding the impact of a foreign exchange loss primarily related to a loan owing to High Arctic. The joint venture's results were disappointing measured against the initial expectations, as actual work available in Mexico proved to be less than anticipated.
- Oilfield service expenses as a percentage of revenue was 73% in the year ended December 31, 2008 which remained consistent with the year ended December 31, 2007 at 75%. Oilfield services expense includes both fixed and variable costs that, in total, do not increase or decrease by the same proportion as changes in revenue and activity levels.
- Oilfield services operating margin was \$44.9 million; an improvement of \$11.8 million (36%) over the \$33.1 million in the year ended December 31, 2007.
- EBITDA of \$26.9 million (\$0.63 per share) for 2008; an increase of \$28.7 million from the negative \$1.8 million for 2007. However the 2007 amount reflects a write-down of long term receivable of \$20.7 million

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

compared to \$2.7 million in 2008. Excluding the impact of the write-down and the discontinued operations, the EBITDA for 2008 was \$32.9 million compared to \$21.9 million for 2007.

- The net loss for 2008 was \$39.6 million (\$0.93 per share) compared to a net loss of \$69.6 million (\$1.83 per share) during 2007. The loss for 2008 included a \$21.7 million charge for the impairment of certain equipment, while the 2007 loss included an impairment charge of \$31.4 million related to assets reclassified for sale in addition to the \$20.7 million as a write-down of a long term receivable.
- The Corporation continues to focus on debt reduction through the disposition of underutilized assets. During 2008 the Corporation sold in excess of \$29 million in assets and reduced its debt by \$32.5 million.
- The Corporation took steps during 2008 to reduce unprofitable business operations in the Middle East region to reduce the drain on financial resources. More details can be found below under "Discontinued Operations".
- Capital spending for 2008 primarily related to equipment acquired in Optimal Drilling Pressure Services and deployed into Mexico. Total capital spending was \$19.8 million.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

Selected Information

The following is a summary of selected financial information of the Corporation:

\$ millions (except per share amounts)	Years ended December 31		
	2008	2007	2006
Revenue - continuing operations	153.7	100.8	104.8
- discontinued operations	14.8	29.3	19.0
- total	168.5	130.1	123.8
Net earnings (loss) before discontinued operations	(31.6)	(31.7)	16.5
Per share (basic and diluted)	\$(0.74)	\$(0.83)	\$0.65
Net earnings (loss) from discontinued operations	(8.0)	(37.9)	0.6
Per share (basic and diluted)	\$(0.19)	\$(1.00)	\$0.02
Net earnings (loss)	(39.6)	(69.6)	17.1
Per share (basic and diluted)	\$(0.93)	\$(1.83)	\$0.67
EBITDA	26.9	(1.8)	34.9
Per share (basic and diluted)	\$0.63	\$(0.04)	\$1.36
Total assets	166.4	228.8	233.4
Long term debt - Credit facility and bridge loan	93.4	122.9	118.6
- Convertible debentures	25.8	23.3	-
Distributions by Trust	-	2.1	25.0

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

The following table provides a quantitative reconciliation of net earnings to EBITDA split to show the effect of the Continuing Operations and Discontinued Operations for 2008 and 2007:

\$ millions	Years ended December 31					
	2008			2007		
	Continuing Operations	Discontinued Operations	Consolidated	Continuing Operations	Discontinued Operations	Consolidated
Net earnings (loss)	(31.6)	(8.0)	(39.6)	(31.7)	(37.9)	(69.6)
Add (deduct)						
Interest and financing fees	21.9	-	21.9	11.4	-	11.4
Taxes	5.3	(0.3)	5.0	3.1	2.2	5.3
Impairment on assets	20.0	1.7	21.7	9.9	21.5	31.4
Amortization	15.2	1.0	16.2	17.9	4.7	22.6
(Gain) Loss on sale of property, equipment and investments	2.1	(0.4)	1.7	(2.9)	-	(2.9)
EBITDA	32.9	(6.0)	26.9	7.7	(9.5)	(1.8)

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

Discontinued Operations

The activities in the Middle East region, including Tunisia and India, were identified as operations where losses and negative cash flow were leading to cash funding requirements that could not be sustained. Management determined that the situation was unlikely to improve. In keeping with the Corporation's strategy of focusing on its core businesses and to exit unprofitable areas, the decision was made to discontinue operations in these areas to the extent possible.

The Corporation has transferred some of the assets from that region to other core areas and has sold other assets and used the proceeds of those sales to reduce its debt. At December 31, 2008 the remaining property and equipment in those operating areas has been classified as assets held for sale.

The following schedule shows the impact of the discontinued operations on the income statement:

\$ millions	Years ended December 31					
	2008			2007		
	Continuing Operations	Discontinued Operations	Consolidated	Continuing Operations	Discontinued Operations	Consolidated
Revenue	153.7	14.8	168.5	100.8	29.3	130.1
Expenses						
Oilfield services	107.2	16.4	123.6	66.5	30.5	97.0
General and administration	14.1	2.8	16.9	10.4	1.1	11.5
Stock based compensation	3.3	-	3.3	0.1	-	0.1
Write-down of long term receivable	0.2	2.5	2.7	14.2	6.5	20.7
Amortization	15.2	1.0	16.2	17.9	4.7	22.6
Foreign exchange (gain) loss	(4.0)	(0.9)	(4.9)	1.9	0.7	2.6
	136.0	21.8	157.8	111.0	43.5	154.5
Operating earnings (loss)	17.7	(7.0)	10.7	(10.2)	(14.2)	(24.4)
Interest	20.6	-	20.6	9.7	-	9.7
Financing fees	1.3	-	1.3	1.7	-	1.7
(Gain) Loss on sale of property, equipment and investments	2.1	(0.4)	1.7	(2.9)	-	(2.9)
Impairment of assets	20.0	1.7	21.7	9.9	21.5	31.4
Net earnings (loss) before income taxes	(26.3)	(8.3)	(34.6)	(28.6)	(35.7)	(64.3)
Income taxes (recovery)	5.3	(0.3)	5.0	3.1	2.2	5.3
Net earnings (loss)	(31.6)	(8.0)	(39.6)	(31.7)	(37.9)	(69.6)

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

Operating Results for the Years Ended December 31, 2008 and 2007

(Note: amounts below combine amounts from continuing and discontinued operations)

\$ millions	Years ended December 31					
	2008	% of Revenue	2007	% of Revenue	Change	%
Revenue						
Canada	53.8		64.6		(10.8)	(17)
International	99.9		36.2		63.7	176
Discontinued Operations	14.8		29.3		(14.5)	(50)
Total Revenue	168.5		130.1		38.4	30
Oilfield services expenses	123.6	73	97.0	75	26.6	27
Oilfield services operating margin	44.9	27	33.1	25	11.8	30
Equipment utilization in Canada	47%		45%			

Operations in Canada

In Canada, natural gas prices and, to a lesser extent, oil prices are the primary drivers of the Corporation's activity levels, as the netbacks expected to be received by its customers heavily influence their drilling and completion plans.

- The revenue of \$53.8 million for 2008 was a decrease of \$10.8 million compared to 2007. The decrease in revenue was not indicative of the overall activity levels of the Corporation. During the 1st quarter of 2007, the Corporation conducted a significant drilling program for one customer that accounted for over \$9 million of revenues in the period and is now the subject of litigation (see "*Commitments and Contingencies*"). The drilling rig used to conduct that drilling program was not active during 2008 and was sold in June 2008.
- The overall wells completed in Western Canada during 2008 increased 8% as compared to 2007; however, the natural gas well completions were flat. The Corporation's activity in the Canadian market correlates to a greater degree to the amount of natural gas well drilling. As a result of declining commodity prices which began late in the 3rd quarter of 2008, drilling activity in the Western Canadian Sedimentary Basin began to slow down in late 2008 and that activity slowdown has accelerated during the first quarter of 2009.
- Equipment utilization is determined by dividing the number of days a unit operates by the number of days in the relevant period. Utilization is affected by competition, economic conditions and the inability at certain times of the year to physically access locations due to climate, the availability of labour and by repair and maintenance activities.
- The Corporation's overall Canadian equipment utilization rate was 47% for 2008, compared to 45% for 2007. These compare to the CAODC rig utilization averages of 41% and 38% for the year 2008 and 2007, respectively, indicating our utilization comparatives are in line with industry averages.
- The Corporation's largest business line in Canada is snubbing services. Utilization rates for the snubbing units increased 6% for the quarter ended December 31, 2008 as compared to the quarter ended December 31, 2007. Year over year the Corporation saw a small utilization increase for snubbing units of 1% to 48% from 2007 to 2008. The overall trend in our snubbing business is for more work in northern areas and more work in non-conventional gas plays.
- Nitrogen equipment utilization was 33% in 2007 and increased to 44% for 2008. The increase has resulted from successfully targeting smaller niche markets and our core customers had greater nitrogen service demands during the year. Although utilization has increased significantly, there has been some downward pressure on overall day rates.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

- The working days for the three 250K UB hydraulic workover units dropped 48% during 2008 as compared to 2007. Utilization in 2008 was down from 85% utilization in 2007 to 47% in 2008. The decline in activity is the result of increasing competition from substitute technologies and new competitors entering the marketplace.
- In October 2008 CAODC forecast that 14,325 wells would be drilled during 2009 in the Western Canadian Sedimentary Basin. As a result of low oil and natural gas commodity prices, tight credit markets and the overall declining global economy, the CAODC now expects 11,176 wells to be completed in 2009 as compared to 20,729 well completions reported for 2008. The Corporation's revenue for 2009 is expected to be impacted proportionately to the actual drop in activity.

International Operations

- The Corporation's activity in Papua New Guinea accounted for \$91.7 million in revenue for the year ended December 31, 2008 as compared to \$32.1 million for the year ended December 31, 2007. The revenue from Papua New Guinea accounted for 80% of the international revenue in 2008 compared to 49% in 2007.
- Services in Papua New Guinea are provided under longer term contracts than the well to well contracts common in Canada. The year 2008 was High Arctic's first full operating year in the country. Two drilling rigs were operating for most of the year and one hydraulic workover unit, Rig 102, commenced operations in June 2008.
- Rig 103 in Papua New Guinea commenced drilling its first well in December 2007 and is operated under a three year contract that runs to December 31, 2010.
- Rig 101 commenced drilling operation in Papua New Guinea in October 2007 and its contract was completed in the third quarter of 2008. It was replaced with Rig 104, which commenced operations on its first well in December 2008.
- Rig 102 was mobilized from the Middle East region and commenced operations in Papua New Guinea in June 2008. The primary term of its initial contract has been completed and it currently operates under a contract that can be terminated on short notice.
- Rigs 101, 103 and 104 are each owned by our customer in Papua New Guinea and leased to High Arctic under an operating lease. The revenue includes amounts related to the recovery of lease related costs. The lease cost is included under oilfield services expense. High Arctic owns Rig 102 and owns drilling support equipment.
- Optimal Pressure Drilling Services, a joint venture with the Schlumberger group, began operations in Mexico on January 1, 2008. Substantially all of the revenue of the joint venture was derived in Mexico and is earned on a day rate basis under well to well call out contracts. The Corporation's 51% share of international revenue from the joint venture was \$8.1 million for the year. Revenue and earnings from Optimal Pressure Drilling Services have been below management's expectations, mainly due to a slower than expected ramp-up of underbalanced drilling activity in Mexico and delays in commissioning some equipment.
- Revenue from areas being reported as discontinued operations has decreased by 49% to \$14.8 million in 2008 as compared to \$29.3 million during the same period in 2007. The decrease reflects the shutdown of the operating areas in stages. The 2008 revenue related primarily to revenue earned in India, Tunisia and Kuwait.

Operating Services Expenses

- The increase in oilfield services expenses is attributable to the growth in revenue. The oilfield services expenses decreased slightly from 75% of revenue in 2007 to 73% in 2008.
- The oilfield services expense associated with the discontinued operation was 111% of discontinued revenue in 2008 and 104% of discontinued revenue in 2007, which supports the reason for the decision to shutdown those operations.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

- The oilfield services expense associated with the continuing operations was 70% of continuing revenue in 2008 and 66% in 2007. The increase as a percentage of revenue is attributable to higher costs in Papua New Guinea primarily because of the expense related to the lease of Rigs 101,103 and 104. The cost associated with the ownership of a rig is expensed through depreciation, while in this case the lease expense on the non-owned rigs is recorded as an oilfield services expense.

Selected Expense Information

Selected expense information presented below is being reported on a combined basis including the discontinued operations:

\$ millions	Years Ended December 31					
	2008	% of Revenue	2007	% of Revenue	Change	%
Revenue	168.5		130.1		38.4	30
General and administrative⁽¹⁾	16.9	10	11.5	9	5.4	47
Share-based compensation⁽²⁾	3.3	2	0.1	-	3.2	3200
Write-down of long-term receivable⁽³⁾	2.7	2	20.7	16	(18.0)	(87)
Amortization⁽⁴⁾	16.2	10	22.6	17	(6.4)	(28)
Foreign exchange (gain) loss⁽⁵⁾	(4.9)	(3)	2.6	2	(7.5)	288
Interest expense⁽⁶⁾	20.6	12	9.7	7	10.9	112
Financing cost⁽⁷⁾	1.3	1	1.7	1	(0.4)	(24)
(Gain) / loss on sale of property, equipment and investments⁽⁸⁾	1.7	1	(2.9)	(2)	4.6	158
Impairment of assets held for sale and property and equipment⁽⁹⁾	21.7	13	31.4	24	(9.7)	(31)
Income taxes (recovery)⁽¹⁰⁾	5.0	3	5.3	4	(0.3)	(6)

(1) General and Administrative

General and administration costs as a percentage of revenue was 10% for the year ended December 31, 2008, up from 9% in 2007. General and administrative expenses increased in dollar terms by \$5.4 million to \$16.9 million for the year ended December 31, 2008 compared to \$11.5 million for the year ended December 31, 2007. Some specific differences are outlined below.

- Costs of maintaining an office in Papua New Guinea and Sydney, Australia to support the operations in Papua New Guinea as well as the general costs associated with managing the rapidly growing operations in that area.
- The corporation's 51% share of general and administration expenses for the first year of operations for Optimal Pressure Drilling Services was \$0.4 million.
- General and administrative expenses in the Middle East increased \$0.7 million to \$2.8 million in 2008 as compared to costs of \$2.1 million in 2007. A majority of the costs were incurred as a result of the Corporation's ongoing efforts to exit the area, including for the cost of severance and terminations benefits.
- Senior management costs rose \$0.6 million as a result of the additions of senior managers through 2007 and having them for the full year of 2008. As part of the Corporation's overall compensation strategy, it set certain financial and performance targets for senior management in 2008, resulting in a \$1.2 million increase in general and administrative expense.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

- The Corporation has provided \$0.6 million related to the resignation of the former Chief Executive Officer.

(2) Share-based Compensation

The Corporation recognized share-based compensation expense of \$3.3 million for the year ended December 31, 2008 (2007 - \$0.1 million) based on amortizing the expense over the vesting period using the Black-Scholes model (see Note 9 in Financial Statements). During 2008, a total of 2,871,500 options were cancelled voluntarily by the holders, all of which were “out-of-the-money”. A total share based compensation expense of \$3.1 million was recognized in relation to those cancelled options, based on the value assigned to the options at the time they were first awarded. Share based compensation is calculated by a prescribed method using the theoretical Black-Scholes option pricing model. The model gives higher values to options where volatility is high and so tends to result in high stock option compensation in smaller companies that are more volatile on average. High Arctic has had higher volatility due to financial conditions specific to the Company and general to the market. Stock compensation expense is never a cash expense and in fact results in additional cash for the Company when options are exercised. The result is to record a large expense for options that ultimately proved to have no cash cost to the Corporation.

(3) Write-Down of Long-Term Receivable

The 2007 and 2008 amounts are due to the write-down of receivables from one former customer that is the subject of litigation (see “Commitments and Contingencies”). The Corporation has written off the entire amount due to the financial condition of the former customer.

(4) Amortization

Amortization for the year ended December 31, 2008 was \$16.2 million, compared to \$22.6 million for the year ended December 31, 2007. The decrease reflects the impairment charges described below under “Impairment of Assets Held for Sale and Property and Equipment” and the reclassification as at December 31, 2007 of certain property and equipment to Assets Held for Sale that are not depreciated.

(5) Foreign Exchange (Gain) Loss

The Corporation has exposure to U.S. dollar revenues and expenses, primarily through its international operations, and to local currencies including the Kina in Papua New Guinea and the Dirham in Dubai (which is tied to the U.S. dollar). The Corporation recorded a foreign exchange gain of \$4.9 million in 2008 as the result of the appreciation in the U.S. dollar relative to the Canadian dollar, coupled with the Corporation’s increased international activities. The foreign exchange loss of \$2.6 million for the year ended December 31, 2007 was the result of strong appreciation of the Canadian dollar in the second half of 2007.

(6) Interest Expense

The following table provides details of interest expense.

\$ millions	Years ended December 31		
	2008	2007	Change
Interest expense on Senior Debt	9.4	7.4	2.0
Interest expense on Convertible Debentures	3.3	0.4	2.9
Interest expense on other debt	0.4	0.3	0.1
Amortization of financing fees	5.3	1.5	3.8
Convertible debenture accretion expense	2.2	0.1	2.1
Total	20.6	9.7	10.9

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

The principal amount of the senior debt (credit facility and bridge loan) was \$93.9 million at December 31, 2008, compared to \$126.4 million at December 31, 2007 but the average outstanding balance was higher in 2008 than in 2007. On October 22, 2007, the interest rate on the credit facility relative to prime increased by 1% and by 3% for that portion above 2.75x EBITDA. The Bridge Loan of \$20 million, which bears a higher rate of interest, was outstanding for all of 2008 compared to less than six months during 2007. The Convertible Debentures were issued in November 2007, so therefore a full year's interest was payable in 2008.

The amortization of financing fees relates primarily to the bridge loan origination fee in July 2007 and to the credit facility and bridge loan extensions on October 22, 2007 and June 6, 2008. The remaining unamortized fees of \$0.5 million will be expensed during the first quarter of 2009.

The convertible debenture accretion expense is a non-cash charge based on assigning a value to the share conversion feature at the time the debentures were issued and expensing that notional value over time.

(7) Financing Costs

Financing costs are primarily related to legal costs and other expenses associated with the Corporation's existing credit facility as well as the pursuit of alternative sources of equity and debt financing arrangements that were not consummated as the proposed terms were not acceptable.

(8) (Gain) / Loss on Sale of Property, Equipment and Investments

During 2008, the Corporation sold two RAPAD Rigs, a hydraulic workover rig and other miscellaneous assets for proceeds of over \$29 million during 2008 and recorded a loss on the sales of \$1.7 million. The gain of \$2.9 million in 2007 relates primarily to the sale of the investment in shares of Sense EDM AS.

(9) Impairment of Assets Held for Sale and Property and Equipment

Management has assessed the property and equipment balances to determine if there are any impairment issues. The need for such assessment arose because of indicators such as a general market decline, changes in expected future cash inflows from operations and management expectation of "more likely than not" that certain specific assets will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

As a first step, management prepared an undiscounted cash flow for the Corporation's major assets and compared that value with the net book value of the assets. Where the net book value was higher than the projected future cash in-flows, management considered this as an indicator of potential impairment.

An impairment loss is measured as the amount by which the carrying amount of an asset exceeds its fair value. The fair value of an asset is determined as the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Management has determined the fair value of the assets by use of internal experts for both local and international operations. Based on this analysis, management has recorded certain impairments to assets.

During 2008, the Corporation, provided for an impairment of \$21.7 million related to a write down on i) its three 250K UB rigs, ii) the write down of equipment that is being marketed for sale, including the one remaining RAPAD Rig, and iii) a further write-down on the heli-portable drilling rig. As at December 31, 2008 the recorded amounts of the assets held for sale is \$25.0 million as management's estimate of the realizable value. The three 250K UB rigs, on which an impairment of \$11.8 million was recorded as part of the 2008 amount, are not part of the assets held for sale.

During 2007, an impairment charge of \$31.4 million was recorded in respect of property and equipment classified as assets held for sale.

(10) Income Taxes (Recovery)

The income tax expense of \$5.0 million for 2008 relates primarily to current taxes payable in Papua New Guinea, as does the tax expense for 2007. The Corporation is not currently taxable in Canada as the result of losses incurred in 2007 and 2008. The Corporation uses the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined for the income tax consequences attributable to differences between amounts recorded in the financial statements and their respective tax bases, using a

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

substantially enacted tax rate. The effect of any change in income tax rates on future tax assets and liabilities is recognized in earnings in the period that the change occurs. The Corporation has not recognized any future net benefit associated with unrecognized tax pools due to the uncertainty of the Corporation's ability to use those tax pools. The Corporation does not expect to be taxable in Canada during 2009 as a result of its available tax pools.

Quarterly Financial Review

Selected Quarterly Consolidated Financial Information (Three Months Ended)

\$million except per share amounts	Fiscal 2008			
	Q1	Q2	Q3	Q4
Revenue – continuing operations	40.9	30.0	38.9	43.9
- discontinued operations	5.3	5.5	2.9	1.1
- total	46.2	35.5	41.8	45.0
Net earning (loss) – before discontinued operations	(0.8)	(7.1)	(1.6)	(22.1)
Per share (basic and diluted)	\$(0.02)	\$(0.17)	\$(0.04)	\$(0.51)
Net earning (loss) – discontinued operations	(1.4)	(2.2)	(1.6)	(2.8)
Per share (basic and diluted)	\$(0.03)	\$(0.05)	\$(0.04)	\$(0.07)
Net earning (loss)	(2.2)	(9.3)	(3.2)	(24.9)
Per share (basic and diluted)	\$(0.05)	\$(0.22)	\$(0.08)	\$(0.58)
	Fiscal 2007			
\$million except per share amounts	Q1	Q2	Q3	Q4
Revenue – continuing operations	32.0	10.7	23.7	34.4
- discontinued operations	12.2	6.9	5.3	4.9
- total	44.2	17.6	29.0	39.3
Net earning (loss) – before discontinued operations	3.0	(0.9)	(10.9)	(22.9)
Per share (basic and diluted)	\$0.11	\$(0.02)	\$(0.25)	\$(0.54)
Net earning (loss) – discontinued operations	2.0	(5.1)	(2.5)	(32.3)
Per share (basic and diluted)	\$0.08	\$(0.13)	\$(0.06)	\$(0.76)
Net earning (loss)	5.0	(6.0)	(13.4)	(55.2)
Per share (basic and diluted)	\$0.19	\$ (0.15)	\$(0.31)	\$(1.30)

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

Fourth Quarter Analysis for 2008 and 2007

(Note: amounts below combine amounts from continuing and discontinued operations)

\$ millions	Quarter ended December 31					
	2008	% of Revenue	2007	% of Revenue	Change	%
Revenue						
Canada	12.6		12.5		(0.1)	(1)
International	31.3		21.9		9.4	43
Discontinued Operations	1.1		4.9		(3.8)	78
Total Revenue	45.0		39.3		5.7	15
Oilfield services expenses	30.9	69	29.6	75	(1.3)	(4)
Oilfield services margin	14.1	31	9.7	25	4.4	45
Equipment utilization in Canada	47%		41%		6%	15

Despite the 4th quarter declines in oil and natural gas commodity prices and the tightening of credit markets, drilling in Canada increased in the 4th quarter of 2008 as compared to the same quarter in 2007. High Arctic's overall equipment utilization rates were up slightly in the quarter at 47% for 2008 as compared to 41% for 2007. However, utilization by product line was mixed, which affects the Corporation's overall domestic revenue levels. Utilization in the 4th quarter for the nitrogen product line was 54% in 2008 as compared to 33% in 2007. In the Corporation's largest product line, snubbing services, utilization in 2008 was 47% compared to 41% in 2007.

The gains in utilization and revenue in the nitrogen product line and in snubbing services were offset by the drop in utilization of the 250K UB rigs. Utilization in the 250K UB hydraulic workover product line declined from 79% in the 4th quarter of 2007 to 24% in same quarter of 2008, resulting in a significant decline in revenue levels for this product line. The decline in the utilization of 250K UB rigs was the result of competing technologies and new competitors.

The Corporation also began to see pricing pressure in Canada for reduced day rates from its customers. Overall, with the increased utilization for the Corporation's equipment and downward pricing pressure on the day rates, revenue was flat in the 4th quarter of 2008 as compared to the 4th quarter of 2007.

Revenue in the international operating areas increased by \$9.4 million to \$31.3 million in the 4th quarter of 2008 as compared to \$21.9 million in the 4th quarter of 2007. The increase in revenue was a result of the Corporation's operations in Papua New Guinea. Rig 102, the Corporation's hydraulic workover rig, and Rig 103 were active for the entire 4th quarter of 2008. Rig 104 was mobilized and began its first well in December 2008. In the 4th quarter of 2007, the Corporation had only Rig 101 operating throughout the quarter, as Rig 103 was mobilizing and began operations in December 2007.

The Corporation continued to wind down operations in the Middle East and India during the 4th quarter of 2008. High Arctic completed drilling its final well in India and began demobilizing its rig in December 2008. As a result, the Corporation had no equipment or rigs operating in the region at December 31, 2008.

Optimal Pressure Drilling Services had its highest quarterly revenue of \$6.7 million, with \$3.4 million being the Corporation's 51% share. Most of the work being performed by Optimal Pressure Drilling Services is in Mexico, where it provides equipment and personnel in support of a drilling operation of the joint venture partner.

Oilfield service expenses as a percentage of total revenue was 69% in the 4th quarter of 2008 as compared to 75% in 2007. Higher revenues, the winding up of the Middle East operations, a stronger U.S. dollar and a continued emphasis by management to reduce expenses were all factors in the oilfield services margins improvement.

The U.S. dollar rose significantly as compared to the Canadian dollar during the 4th quarter of 2008. The Corporation has significant assets and income denominated in U.S. dollars and, as a result, the Corporation had a \$3.1 million

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

foreign exchange gain in the 4th quarter 2008. This compares to a foreign exchange loss in the 4th quarter of 2007 of \$0.8 million when the Canadian dollar was gaining strength relative to the U.S. dollar.

In the 4th quarter of 2008, the Corporation recorded the following amounts; \$21.7 million for the impairment of assets (see "Impairment of Assets Held for Sale and Property and Equipment"), \$3.3 million for share-based compensation (see "Share-based Compensation"), interest expense and financing fees of \$3.9 million (see "Interest Expense"), and a \$2.7 million write-down of a long term receivable (see "Commitments and Contingencies"). During the quarter, the Corporation continued to focus its efforts on reducing debt, actively marketing excess assets, winding up non-core operations and providing clear focus on core business operations.

Liquidity and Capital Resources

Selected Capitalization Data (on a Consolidated Basis, including Discontinued Operations)

	Years ended December 31		
	2008	2007	Change
\$ millions except financial ratios			
Current assets	58.0	65.2	(7.2)
Current liabilities less credit facility ⁽¹⁾	37.5	37.2	0.3
Operating working capital ⁽²⁾	20.5	28.0	(7.5)
Operating working capital ratio ⁽³⁾	1.55	1.75	(0.20)
Senior credit facility	93.9	126.4	(32.5)
Subordinated convertible debentures	27.9	27.9	-
Shareholders' equity	9.7	45.4	(35.7)
Total debt-to-capitalization ratio ⁽⁴⁾	0.93	0.77	0.16
Cash and cash equivalents	22.2	21.0	1.2

Notes:

- (1) Calculated as current liabilities less the current portion of the credit facility and bridge loan.
- (2) Calculated as current assets less current liabilities excluding the current portion of the credit facility and bridge loan.
- (3) Calculated as current assets divided by current liabilities excluding the current portion of the credit facility and bridge loan.
- (4) Calculated as long-term debt (senior credit facility and subordinated convertible debentures) divided by the sum of long-term debt and shareholders' equity.

The Corporation continues to focus on reducing its debt leverage and maintaining sufficient liquidity for its operating needs. The Corporation's objective is to have a capital structure that will provide the capital to meet the requirements of its business and instil confidence in investors, creditors and the capital markets. To accomplish this, the Corporation must reduce its debt levels and increase the shareholder's equity to reduce its leverage ratios and provide adequate financial flexibility to meet the financial obligations, both current and long term. During 2006 and 2007, the Corporation increased its debt levels to fund the acquisition of new equipment and expand its international business. Its current debt levels are well above prevailing industry standards and severely limit the financial flexibility of the Corporation.

The senior credit facility ("Credit Facility") is comprised of a \$20-million revolving loan ("Facility A") and a \$100-million equipment-based revolving loan ("Facility B") and a \$20-million multi-draw bridge loan facility (the "Bridge Loan"). As at December 31, 2008, the Corporation owed approximately \$4.2 million on Facility A (2007 – \$6.8 million), \$69.7

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

million on Facility B (2007 - \$99.6 million) and \$20.0 million on the Bridge Loan. The Corporation is not permitted any further draws under its revolving credit facilities until its Consolidated Leverage Ratio ("CLR") is below 2.75 to 1.0 and has been maintaining higher than normal cash balances to compensate for the lack of a revolving credit line.

The Corporation requires the continued cooperation and support of its senior lenders. The Corporation's ability to continue as a going concern is dependent upon cash flow from operations remaining adequate to meet the cash requirements of the business, notwithstanding an anticipated continuing decline in Canadian oilfield activity as well as obtaining further extensions of the due date for repayment of its outstanding debt. The Corporation has obtained a number of waivers and amendments to its banking covenants (see "*Financial Covenants*" below and *Note 6 in the Financial Statements*) as a result of not generating sufficient cash flows from operations and not yet completing the asset sales required under the terms of its senior credit facility. The Corporation does not expect to have the ability to repay the \$20.0 million Bridge Loan due on March 31, 2009. The Corporation must negotiate additional extensions and amendments to its credit facilities and expects that further asset sales will be required to reduce its debt and maintain compliance with the revised terms. While the Corporation is focusing its best efforts on these matters, there are no assurances that management will be successful in such initiatives. There is therefore a significant risk regarding the Corporation's ability to continue as a going concern. The Corporation's financial statements as at December 31, 2008 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.

The senior lenders want a significant reduction in the Corporation's debt levels to bring the debt in line with prevailing commercial lending terms. Sales of non-performing and underutilized assets are being actively pursued as one possible solution, but current market conditions make the timing of any sales less predictable. Future equity financings are a possibility to further reduce the risk associated with the current highly leveraged capital structure. However, the ability to complete an equity financing is uncertain, in part because the current state of the capital markets makes it difficult to raise equity financing, particularly for a highly leveraged corporation. The senior lenders may impose additional requirements, restrictions, conditions and fees as part of any extension of the senior credit facility. Financing decisions for the foreseeable future will be governed largely by the requirement to reduce debt and manage the debt covenants imposed under the Credit Facility.

The Corporation had a cash balance of \$22.2 million as at December 31, 2008 and continues to work with its lenders to balance the need to repay debt with the need to maintain sufficient cash to meet its cash needs for the foreseeable future. The cash balance includes \$3.3 million as High Arctic's proportionate share of the cash balance in Optimal Pressure Drilling Services which cannot be readily withdrawn for other purposes. In addition to ongoing business needs, the near term cash needs include approximately \$9 million required to pay income taxes for 2007 and 2008, primarily relating to Papua New Guinea, most of which is expected to be payable over the next 120 days. The Corporation will have limited access to new credit until it brings its CLR to levels acceptable to its lenders and is again able to draw on its revolver facility.

The Corporation generated positive cash flow from operations during 2008 as described below. Industry conditions in 2009 have deteriorated and will adversely impact operating cash flows. The Corporation entered 2009 with its accounts payable and accounts receivable substantially all current which, together with the cash balance, provides some cushion. No major capital expenditures are planned for 2009, as the Corporation plans to keep tight control on spending and limit capital spending largely to maintenance capital.

Financial Covenants

The Corporation has obtained waivers and amendments of certain financial covenant requirements to avoid a covenant default that would have resulted in the Senior Consolidated Debt being repayable immediately and triggered a cross default under the Convertible Debentures (see *Note 7 in the Financial Statements*) and expects that further waivers and extensions will be required. The Corporation obtained a waiver of the requirement to have a current ratio of 1:25 to 1:00 as at December 31, 2008. Effective on June 6, 2008, the revolving credit facility and the Bridge Loan were amended (the "Amendments") to extend the maturity date and to establish new covenants that are consistent with the Corporation's business plan. The revolving term period of Facility A and Facility B was extended to March 31, 2009, after which the outstanding principal will become payable over a 36-month period. The maturity date of the Bridge Loan is now March 31, 2009. The Corporation does not expect to have the capacity to repay the Bridge Loan on March 31, 2009 but expects that it will be able to negotiate an extension of time.

As part of the Amendments of June 6, 2008, High Arctic covenanted to raise net proceeds of at least \$50 million through the sale of equipment to be completed by January 31, 2009. The sales were to be completed at defined intervals so that 25% was completed by July 31, 2008, 50% completed by September 30, 2008, 75% completed by

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

November 30, 2008 and the remaining sales were to be completed by January 31, 2009. As at March 24, 2009, the Corporation had completed asset sales of \$30.8 million and the due date for the remaining asset sales of \$19.2 million has been extended to March 31, 2009 by virtue of an extension agreement dated December 26, 2008 and a waiver dated March 18, 2009. The Corporation expects that it will require additional extensions of time to complete the asset sales which it expects to receive from its lenders.

The Consolidated Leverage Ratio ("CLR") is defined in the revolving credit facility agreement as, in general terms, consolidated total debt, as defined, divided by the 12-month trailing adjusted consolidated earnings before interest, depreciation, amortization and taxes. The CLR test is applied monthly and at December 31, 2008, the Corporation had a CLR of approximately 3.26 to 1.0 which was within the required level of 3.45 to 1.0. The maximum allowed CLR will decrease over time until it reaches 2.75 to 1.0, to be achieved by March 31, 2009. The Corporation is not permitted any further draws under its revolving credit facilities until its CLR is below 2.75 to 1.0 and this allowable limit may be further reduced by the lenders. The Corporation may not achieve the required CLR levels in 2009 as a result of not meeting the asset sales requirements, but expects that additional amendments will be forthcoming from the lenders.

Commencing with the first quarter of 2009, the Corporation must use 50% of excess cash flow (which is generally defined as consolidated earnings before interest, depreciation, amortization and taxes, less debt service requirements, allowable 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.

Management of the Corporation expects to negotiate new financial covenant levels and other amendments as part of an extension of the current debt facilities.

Convertible Debentures

During November 2007, the Corporation issued \$27.9-million principal amount of 12 percent unsecured convertible debentures due December 31, 2012. Costs related to the issuance of the debenture were \$1.9 million, of which \$1.7 million was deducted against the related debt and is being amortized over the 60 month term of the debt using the effective interest rate method.

The interest is payable semi-annually on each June 30 and December 31. An amount of \$2.1 million was paid on June 30, 2008, which represented the initial period which was larger than 6 months, and \$1.6 million was paid on December 31, 2008 on account of interest accrued to that date. The interest rate was initially 12% but reduced to 10% effective December 1, 2008 as a result of the fact that the Consolidated Leverage Ratio had dropped below 5.0 to 1.0. The Consolidated Leverage Ratio is similar to the CLR for the revolving credit facilities described in Note 6 of the Financial Statements, except the consolidated debt used in the numerator includes the convertible debentures. The Consolidated Leverage Ratio remains below 5.0 to 1.0 at December 31, 2008.

The debentures are convertible into common shares of the Corporation at the option of the holder at any time prior to maturity, at a conversion price equal to \$1.62 per share, subject to customary anti-dilution adjustments, and conversion is subject to the terms and conditions set out in the certificates representing the debentures. At December 31, 2008, there had not been any conversions of the debentures. The Corporation may elect to issue common shares to satisfy the principal amount at maturity.

Subject to certain limits, the Corporation may redeem all or any portion of the convertible debentures at any time after the third anniversary date from issue. The redemption price is \$1,050 per \$1,000 of principal amount if the redemption occurs on or before November 14, 2011 and \$1,025 per \$1,000 of principal amount if the redemption is after November 14, 2011 and prior to maturity.

Cash Flow

Cash – Operating Activities – Continuing Operations

For the year ended December 31, 2008, cash provided by operating activities was \$17.2 million before reflecting working capital adjustments, compared to cash provided by operating activities of \$7.1 million in the year ended December 31, 2007. After consideration of working capital adjustments, cash provided by operating activities in the year ended December 31, 2008 was \$27.6 million, compared to cash used by operating activities of \$13.1 million in

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

the year ended December 31, 2007. The sizable use of cash in operating activities for 2007 reflects the new international businesses started in 2007, including in Papua New Guinea, and ongoing losses on Middle East operations that have since been discontinued. In 2008, the Corporation enjoyed the benefit of a full year's operations in Papua New Guinea and had a beneficial change of \$10.4 million in the non-cash working capital balances as a result of improved collection on receivables and as a result of the income taxes payable not being immediately due.

Investing Activities – Continuing Operations

For the year ended December 31, 2008, net expenditures to acquire rigs, equipment and other operational assets were \$19.8 million, compared to \$12.2 million for the year ended December 31, 2007 (both amounts after the change in accounts payable related to constructing rigs and equipment). The acquisitions in 2008 related primarily to equipment in the amount of \$8.8 million acquired as part of the start-up of Optimal Pressure Drilling Services.

During the year ended December 31, 2008 the Corporation received proceeds from the sale of assets of \$13.7 million, compared to \$25.8 million for the year ended December 31, 2007. Most of the 2008 amount relates to the sale of a Canadian based RAPAD Rig in June, 2008.

Financing Activities – Continuing Operations

For the year ended December 31, 2008, the Corporation repaid its credit facility by \$32.5 million.

No dividends were declared during the year ended December 31, 2008. The amount of future dividends payable by High Arctic will be at the discretion of its board of directors and will be established on the basis of the earnings, financial requirements and other conditions existing from time-to-time. The Corporation's board of directors does not currently intend to implement a policy of paying dividends to High Arctic's shareholders in the foreseeable future.

Cash Flows from Discontinued Operations

For the year ended December 31, 2008, there was a use of \$6.5 million of cash resulting from operating activities, primarily as a result of losses incurred on operations. Proceeds from the sale of assets was \$18.8 million, resulting in a net cash increase of \$12.3 million from Discontinued Operations. The proceeds of sale arose primarily from the sale of a RAPAD Rig that had been providing services in Tunisia and a hydraulic workover unit that had been providing services in the Middle East region.

Customer Concentration

High Arctic has over 400 customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, High Arctic has two significant customers representing approximately 65% of its consolidated revenue for the year ended December 31, 2008 and 51% of its consolidated accounts receivable at that date. The first significant customer is a major Canadian exploration and production company to whom a full range of the Corporation's services are provided. That customer represents 11% of the Corporation's consolidated annual revenue in 2008 and 3% of the Corporation's accounts receivable for the year ended December 31, 2008. The services provided to this customer are distributed within that customer's diverse locations of operations within Canada, which management believes limits the risk of concentrating a significant portion of its revenue on this customer. Services are provided to the second significant customer in Papua New Guinea. That customer represents 54% of the Corporation's consolidated revenue in 2008 and 48% of the Corporation's accounts receivable balance as at December 31, 2008. As at December 31, 2008 the Corporation's outstanding receivable balances with those two customers had no amounts greater than 90 days. Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with these customers.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

Commitments and Contingencies

Accounts Receivable

The Corporation is involved in litigation with Transeuro Energy Corp (“Transeuro”) over amounts owing for goods and services rendered by the Corporation in Canada, Dubai, Armenia, Ukraine and Papua New Guinea. Transeuro is disputing the amounts primarily on the basis of service quality. Due primarily to the collection risk related to the financial condition of Transeuro, the Corporation has fully expensed the remaining receivable as a write-down on long term receivables at December 31, 2008. A write-down of \$20.7 million in 2007 and a further write-down of \$2.7 million in 2008 has been recorded. The write-down on the receivable was applied to both the Canadian business, which is ongoing, and the discontinued operations (see Note 16 of the Financial Statements). The financial statements do not include any further receivables due from Transeuro.

Other

A former employee of the Corporation has commenced a wrongful dismissal suit against the Corporation. A formal offer from the plaintiff to settle for \$0.5 million was rejected by the Corporation. The Corporation has made a provision in its financial statements for an amount that it believes is adequate to cover any exposure.

The Corporation has posted a performance bond that has been guaranteed by Export Development Canada (or “EDC”) of approximately US\$3.5 million in respect of its contract in Kuwait and would be liable to EDC for this amount if EDC was required to honour the bond as a result of a default by the Corporation in the performance of its obligations under the contract. Under the terms of the contract, the Corporation could be obligated to provide up to five rigs that may not be available if requested. As at December 31, 2008, the Corporation was not providing any services in Kuwait, as the two rigs providing services to date have both been released from service by the customer but can be called back to service at any time during the term of the contract ending in August 2012.

Contractual Obligations

In addition to the commitments and contingencies noted above and the related party transactions noted below, in the normal course of business, the Corporation incurs contractual obligations.

The following tables set forth the Corporation’s contractual obligations, in each case for the 12 month period ended December 31, as at December 31, 2008:

	As at December 31					
\$ millions	2008	2009	2010	2011	2012	Post 2012
Long-term debt obligations ⁽¹⁾	\$ 93.9	\$ 39.0	\$ 21.7	\$ 4.3	\$ -	\$ -
Convertible debentures	27.9	27.9	27.9	27.9	27.9	27.9
Operating lease obligations	0.5	-	-	-	-	-
Related party operating lease obligations ⁽²⁾	1.2	0.4	0.1	-	-	-
Total obligations	123.5	67.3	49.7	32.2	27.9	27.9

(1) The amounts noted assume the Corporation meets all its financial obligations for debt repayment and that the revolving term of the credit facility is not renewed by lenders in 2009 and the Bridge Loan is not extended beyond March 31, 2009. Refer to Note 6 of the Consolidated Financial Statements for the period ended December 31, 2008. The Corporation anticipates that the repayment terms may be extended.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

- (2) Related party operating lease obligations are for vehicle and property leases due to a related party, the former President and CEO of the Corporation (see "Related Party Transactions").

Risk Management and Uncertainties

The success of the Corporation is dependent to a great extent on the health of the oil and natural gas industry in Canada and internationally which, in turn, is driven in large part by commodity prices. As a member of this industry, the Corporation is exposed to various risks, including:

- volatilities in global supply and demand and market prices for oil and natural gas and the effect of these volatilities on the demand for oilfield services generally;
- uncertainties in weather affecting the duration of the service periods and the activities that can be completed, including the seasonality that affects industry activity in Canada;
- reduction in industry activity levels in Western Canada, primarily due to a recent period of lower natural gas prices and impacts (see above);
- changes in legislation and the regulatory environment, including uncertainties with respect to implementing environmental initiatives;
- alternatives to and changing demands for petroleum products;
- the worldwide demand for oilfield services in connection with the underbalanced drilling, workover and completion of oil and gas wells;
- general economic conditions in Canada, the United States, Mexico, Southeast Asia and the Middle East, including variations in currency exchange rates and interest rates;
- liabilities and risks inherent in oil and gas operations, including environmental liabilities and risks arising below ground surface;
- credit risks associated with customers in the oil and gas industry, including the inability of a significant customer to pay for goods and services that have been provided;
- risks inherent in foreign operations, including political and economic risk and the risk of foreign currency controls that could restrict the transfer of funds in or out of countries in which the Corporation operates or result in the imposition of taxes on such transfers; and
- regional and international competition.

These factors may have an impact upon the Corporation's customer base which, in turn, would impact the Corporation's business prospects.

The Corporation is also subject to specific risks including:

Financing Risk

- The Corporation's risk associated with access to equity capital and debt financing required for business needs and to repay existing capital. The Corporation's current debt levels are above industry standards. The present financial condition of the Corporation, coupled with uncertain levels of near term industry activity, exposes the Corporation to the risk that necessary capital cannot be acquired on a timely basis, on terms acceptable to the Corporation, or at all. The revolving term of the revolving credit facility is scheduled to end on March 31, 2009 and, unless the revolving term is extended, the outstanding indebtedness must then be repaid in 36 equal monthly payments. The Bridge Loan also matures on March 31, 2009 and must be repaid in full on that date along with any outstanding amendment fee. In addition, the Corporation must pay down the revolving credit facility out of mandatory asset sales and must generally use any proceeds from other asset sales or equity issues to repay debt. There is no guarantee that the Corporation will be

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

able to secure the necessary amendments to its revolving credit facility or obtain alternative or additional financing on terms attractive to the Corporation, or at all.

- Where additional financing is raised by the issuance of common shares or securities convertible into common shares, control of the Corporation may change and shareholders may suffer dilution to their investment.
- The level of the Corporation's indebtedness from time-to-time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.
- The Corporation has risk associated with non-compliance with the covenants of its credit facilities. If the Corporation breaches any of the financial covenants or certain other covenants in the credit facility and fails to cure such breach within the cure periods specified therein, all amounts owing under the revolving credit facility and Bridge Loan will become due and payable immediately. In such event, pursuant to security granted pursuant to the revolving credit facility and Bridge Loan, the Corporation's lenders will have the right, among others, to seize and sell any or all of the Corporation's assets and to apply the proceeds of such sale against the outstanding obligations under the credit facility. The Corporation expects that it will need to continue to seek waivers or amendments of its financial covenants to avoid a default.

Interest Rate Risk

- The Corporation is exposed to interest rate risk on its Credit Facility and Bridge Loan and does not currently hold any financial instruments that mitigate this risk. The Corporation's credit facilities and Bridge Loan are linked to the prime rate. A 1% increase or decrease in the prime rate for the year would have resulted in \$0.9 million change in interest expense based on the outstanding balances as at December 31, 2008.

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.

Operational Risk and Insurance

- High Arctic's operations are subject to operational risks inherent in the oil and gas services industry. These risks include equipment defects, malfunctions and failures, and natural disasters, vehicle accidents, explosions and uncontrollable flows of natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruptions, and damage to or destruction of property and equipment. High Arctic continuously monitors its activities for quality control and safety in order to reduce the risk. The Corporation has obtained insurance against certain risks; however, such insurance may not be adequate to cover High Arctic's liabilities and may not be available in the future at rates which High Arctic considers reasonable and commercially justifiable.

Reliance on Key Personnel

- The success of the Corporation is dependent upon its key personnel. Any loss of the services of such persons could have a material adverse effect on the business and operations of the Corporation. The Corporation's ability to provide reliable and quality services is dependent on its ability to hire and retain a dedicated and quality pool of employees. The Corporation strives to retain employees by providing a safe working environment, competitive wages and benefits, and an atmosphere in which all employees are treated equally regarding opportunities for advancement.

Credit Risk

- The Corporation's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. During times of weak economic conditions, the risk of increased payment delays and failure to pay increases due to a reduction in customer's cash flow. Failure to collect accounts

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

receivable from customers could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. High Arctic generally grants unsecured credit to its customers; however, it evaluates all new customers as appropriate and analyzes and reviews the financial health of its current customers on an ongoing basis.

Risk of Foreign Operations

- The Corporation operates in international locations including Papua New Guinea and Mexico, where the political and economic systems differ from those in Canada. 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 local qualified staff.

Foreign Exchange Rate Risk

- High Arctic's consolidated financial statements are presented in Canadian dollars. The Corporation is exposed to foreign currency fluctuations, as most of its international revenues and expenses are denominated in U.S. dollars. Foreign entities with a domestic functional currency expose the Corporation to currency risk on the translation of these entities' financial assets and liabilities to Canadian dollars for consolidation.

Dependence on Suppliers

- High Arctic sources supplies and materials, from a variety of suppliers, in Canada and internationally. Failure of suppliers to deliver supplies and materials in a timely and efficient manner would be detrimental to the Corporation's ability to maintain levels of service to its customers. High Arctic attempts to mitigate this risk by maintaining strong relations with key suppliers. However, if the current suppliers are unable to provide the supplies and materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to our clients could have a material adverse effect on our results of operations and our financial condition.

Competition

- The Corporation's continued success partially depends upon developing and implementing technological advances and the ability to match advances of competitors. The oilfield services industry is highly competitive and the Corporation competes with a substantial number of companies. Reduced levels of activity in the oil and gas industry can intensify competition, which will have an affect on the Corporation's ability to generate revenue and earnings.

Other

- The Corporation has specific risks that result from its unique situation. The former Chief Executive Officer of the Corporation directly or indirectly has the ability to control the votes to approximately 41% of the issued and outstanding shares and, as such, is in a position to significantly influence the outcome of actions requiring shareholder approval. Those shares, however, are subject to a Pooling Agreement dated June 6, 2008 under which votes for directors are cast based on the decision of a majority of the, former Chief Executive Officer, the Chairman of the Board and the Chief Restructuring Officer until January 31, 2010.

Additional risk factors relating to the Corporation are also outlined in the Annual Information Form for the year ended December 31, 2008.

Critical Accounting Estimates

The Corporation's significant accounting policies are described in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2008. The preparation of consolidated financial statements requires that certain

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

estimates and judgments be made in regard to the reported amounts of revenue and expense as well as the carrying value of assets and liabilities. These estimates are based upon historical experience and the judgment of management.

The principal critical accounting estimate of the Corporation relates to amortization of property and equipment, including asset and impairment write-downs, if any. All amortization is carried out on the basis of the estimated useful lives of the related assets. Equipment under construction is not amortized until put into use. Included in property and equipment is equipment acquired under capital leases. All equipment is amortized based on the declining balance method, with rates ranging from 10% to 30%.

Assessing the reasonableness of the estimated useful lives of properties requires judgment and is based on currently available information, including periodic amortization studies conducted by the Corporation. Additionally, the Corporation canvasses its competitors to ensure it utilizes methodologies and rates consistent with the remainder of the sector in which the Corporation operates. Changes in circumstances, such as technological advances, changes to the Corporation's business strategy, changes in the Corporation's capital strategy, or changes in regulations may result in the actual useful lives differing from the Corporation's estimates.

A change in the remaining useful life of a group of assets, or their expected residual value, will affect the amortization rate used to amortize the group of assets, and thus affect amortization expense as reported in the Corporation's results of operations. These changes are reported prospectively when they occur.

The Corporation regularly assesses equipment carrying values and estimates whether future cash flows will exceed the carrying values at any point in time. Should this not be the case, the Corporation records an impairment for the estimated deficiency.

Another important estimate made by the Corporation, in particular due to its international exposure, is the allowance for collection of doubtful accounts. In addition to its day-to-day monitoring of its accounts receivable position, the Corporation has instituted detailed credit reviews prior to commencement of contractual arrangements and the use of export insurance provided by Export Development Canada where practical.

Lastly, the Corporation operates in Canada and several international jurisdictions with varying taxation policies and procedures for determining taxable income. In particular, the Corporation must estimate its earnings and capital expenditures in Canada in order to assess whether it will be liable for income tax. It must also estimate whether a future tax valuation allowance is required when recording a future tax asset. The Corporation must also estimate its tax liability in the foreign jurisdictions in which it operates, based on its understanding of the foreign tax laws and the application of those laws.

Related Party Transactions

In the normal course of business, during the year ended December 31, 2008 the Corporation incurred general and administration expenses related to premises rent of \$1.0 million (2007 - \$1.1 million) and equipment and vehicle leases payments of \$0.6 million (2007 - \$0.9 million) charged by companies controlled by the person who was the President and Chief Executive Officer of the Corporation until December 16, 2008 (the "Former CEO") and remains the largest shareholder of the Corporation. The premises rent relates primarily to the Corporation's office and shop facilities in Red Deer and Grande Prairie and its sales office in Calgary. Rental rates are based on the market rental rates for comparable facilities at the time the leases were executed. The term of the lease for the Red Deer facility, which serves as High Arctic's head office, ends on November 30, 2009 and the Corporation anticipates entering into renewal negotiations. A new lease was signed for the Grande Prairie facility effective March 1, 2009 for a 30 month term. The vehicle lease payments relate primarily to crew trucks used in the business and are being replaced with corporate owned vehicles as finances allow and as the leases come to the end of their term.

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

As part of the terms of the October 22, 2007 amendments to the Corporation's credit facility, in October 2007, the Former CEO loaned the Corporation \$2.0 million at a rate of 11%. This loan is secured by a promissory note repayable on a subordinated basis to the revolving credit facility and Bridge Loan (see Note 6). Interest expense for 2008 includes \$0.2 million pertaining to this loan.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

A further amount of \$ 4.3 million (2007 - \$3.4 million) is owed to the Former CEO, and companies controlled by him as at December 31, 2008 on account of various transactions. The amounts are unsecured, repayable on demand (subject to certain subordination limitations under the revolving credit facility and Bridge Loan) and non-interest bearing. For the year ending December 31, 2008, the Corporation has accrued \$0.1 million as an estimate of interest at a rate of 6% per annum that may be paid on overdue amounts. The \$4.3 million also includes an amount of \$1.0 million recorded during the year ended December 31, 2008 as an estimate of a liability related to the purchase of fixed assets.

Optimal Pressure Drilling Services (*see Note 5 of the Financial Statements*) engaged the services of a director and incurred fees during 2008 of approximately \$0.2 million (2007 - \$34,000) that are recorded in Optimal Pressure Drilling Services. The fees are based on the arms length value of the services rendered by the director.

New Accounting Standards

a) Goodwill and Intangible Assets - Section 3064

The CICA issued the new Handbook Section 3064, Goodwill and Intangible Assets, which will replace Section 3062, Goodwill and Other Intangible Assets. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management is currently assessing the impact of this new accounting standard on its consolidated financial statements.

b) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The Company has begun assessing the adoption of IFRS for 2011; the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

c) Business Combinations

For interim and annual financial statements relating to its fiscal year commencing July 1, 2011, the Company will be required to adopt new CICA Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests". Section 1582 replaces existing Section 1581 "business Combinations", and Sections 1601 and 1602 together replace Section 1600 "Consolidated Financial Statements." The adoption of Sections 1582 and collectively, 1601 and 1602 provides the Canadian equivalent to IFRS 3 "Business Combinations" and International Accounting Standard IAS 27 "Consolidated and Separate Financial Statements" respectively. The impact of adopting these new standards have not yet been assessed and cannot reasonably be estimated at this time.

As disclosed in the December 31, 2007 Financial Statements, the company adopted the following sections from the Canadian Institute of Chartered Accountants handbook:

d) Section 1535 "Capital Disclosures"

The new standard requires disclosure of the Corporation's objectives, policies and processes for managing capital. This includes qualitative information regarding the Corporation's objectives, policies and processes for managing capital and quantitative data about what the Corporation manages as capital. These disclosures are based on information that is provided internally to the Corporation's key management.

e) Section 3031 "Inventories"

The new disclosure replaces Section 3030 and provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Corporation's accounting policy for inventories is consistent

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

with measurement requirements in the new standard and therefore it is not anticipated that the results of the Corporation will be impacted.

- f) Sections 3862 and 3863 replace section 3861 "Financial Instruments – Disclosure and Presentation"

Revises and enhances financial instruments disclosure requirements and leaves unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Corporation manages those risks.

Off-Balance Sheet Arrangements/Variable Interest Entities

The Corporation has no off-balance sheet arrangements or variable interest entities.

Change in Accounting Policy and Future Accounting Changes

Except for the adoption of new standards described above, the Corporation has not changed any accounting policies since December 31, 2008.

Future Accounting Changes

The Canadian Institute of Chartered Accountants has issued a new section to replace the existing Goodwill and Intangible Assets standard. As of January 2009, High Arctic will be required to meet the new requirements defined in section 3064 for recognition, measurement, presentation and disclosure of intangible assets. These changes will affect the corporation's policy of deferring start up costs during preoperational periods.

The Accounting Standards Board of the CICA ("AcSB") has adopted a strategy to apply International Financial Reporting Standards ("IFRS") to publicly accountable enterprises in the future. The AcSB confirmed in February 2008 that IFRS standards will replace Canadian GAAP in 2011, for profit oriented Canadian publicly accountable entities. High Arctic is evaluating the potential impacts of this change in reporting standards.

Disclosure Controls and Procedure

The Corporation has established disclosure controls and procedures, as defined in National Instrument 52-109, to ensure timely and accurate preparation of financial and other reports. Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to the appropriate members of management and properly reflected in the Corporation's filings. The Interim Chief Executive Officer and the Chief Financial Officer oversee this evaluation process and have concluded that the design and operation of these disclosure controls and procedures are adequate and effective in ensuring that the information required to be disclosed by the Corporation in reports filed with the Canadian Securities Administrators is accurate and complete and filed within the time periods required. The Interim Chief Executive Officer and the Chief Financial Officer have individually signed certifications to this effect.

Internal Controls Over Financial Reporting

The Corporation's management is responsible for establishing and maintaining adequate Internal Controls over Financial Reporting ("ICFR"). Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls become inadequate because of changes in conditions or personnel, or that the degree of compliance with the policies or procedures may deteriorate.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

The Corporation has adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to design ICFR. With the assistance of external consultants, throughout 2008, the Corporation reviewed the design and effectiveness of its ICFR. The Corporation identified the activities in Canada and Papua New Guinea as critical elements to the certification of the controls. The activities in the Middle East were being wound down throughout 2008 and as a result were scoped out of the testing and reported as discontinued operations in the Financial Statements, further Optimal Pressure Drilling Services, as a proportionately consolidated entity, has been scoped out of the ICFR testing and reporting. For the year ended December 31, 2008, the discontinued operations and Optimal Pressure Drilling Services accounted for \$23.5 million in revenue, and \$5.2 million in Oilfield Operating Margin.

External consultants and senior management personnel conducted process review, design and development processes to ensure that controls were designed appropriately. In the fourth quarter, the Corporation then performed subsequent testing to ensure that processes and controls were operating effectively.

Based upon their evaluation of the ICFR, the interim CEO and CFO have concluded that the Corporation's ICFR have certain weaknesses relating to fixed asset processes and income tax management.

The ICFR weakness in fixed asset processes relates to the methodology the Corporation used to assign cost to asset classes making the determination of the cost of specific assets difficult. Management is currently conducting an analysis of the fixed asset classes and conducting a fixed asset reconciliation by component.

The ICFR weakness in tax management relates measurement of income tax expense. The Corporation has enlisted the services of consultants to assist in fulfilling all compliance obligations.

As a result of the Corporation's financial position over the past two years, its ability to attract additional independent board members has been hampered. Management and current board members are working to improve the Corporation's financial position which should improve the ability to attract additional independent board members and enhance overall corporate governance.

At December 31, 2007, the Corporation identified that improvements in its financial risk management, forecasting and financing ability were necessary. The Corporation was able to improve these ICFR weaknesses through the addition of experienced personnel, additional training, improvements in processes and procedures, and the completion of actionable tasks. The Corporation also appointed a permanent CFO in March, 2008 which addressed another of the ICFR weaknesses identified at December 31, 2007.

Notwithstanding the above control weaknesses, the interim CEO and the CFO have satisfied themselves that the ICFR are effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. While the Corporation is continually improving its ICFR, no material changes were made during the year ended December 31, 2008 that would materially affect or are reasonably likely to materially affect the Corporation's ICFR.

International Financial Reporting Standards Update

The Corporation's management is responsible for establishing and maintaining adequate internal controls over financial reporting. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial statement preparation and presentation. The Corporation has adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design of internal controls over financial reporting. Throughout 2008 internal control audits were performed in Canada and Papua New Guinea to test the design and operating effectiveness of the internal control systems. As a result of the internal control audits, the Corporation's management believes there are adequate controls over financial reporting. The Corporation appointed a permanent CFO in 2008 and hired other accounting professionals necessary to appropriately maintain and improve internal control systems. As a result of the financial pressures the Corporations experienced in 2007 and 2008, the ability to attract additional independent board members has been hampered. The Corporation did not make any change in its internal control over financial reporting during the year ended December 31, 2008 that has materially affected, or is reasonably likely to affect, the Corporation's internal control over financial reporting.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

Outlook

The impact of the financial crisis and worldwide economic recession has reduced demand for oil and natural gas, resulting in a considerable reduction in current and forecast oil and gas prices. The fall in commodity prices has reduced our customers' 2009 cash flow expectations and impacted their ability to access debt and equity financing. The Corporation therefore expects a significant reduction in demand for our services in 2009, particularly in Canada. The Corporation anticipates the reduction in demand for our services to increase industry competitiveness and put downward pressure on equipment utilization and pricing in the Canadian market. As a result, the Corporation expects a significant reduction in revenue and operating earnings during 2009. A significant portion of the Corporation's cost structure is variable in nature and will naturally reduce with a decrease in activity. The Corporation's management team has proactively reacted to the changes by implementing cost control measures throughout the organization to bring the cost structure in line with the expected level of work.

Industry activity in the Western Canadian Sedimentary Basin during the first quarter of 2009 has been significantly below activity levels in the same quarter in 2008 and 2007, a trend that is expected to carry on through the year. The Corporation anticipates that drilling activity in the second quarter of 2009 will also be lower than the same quarter in 2008. For 2009 the CAODC is forecasting a further reduction in well completions to 11,176. That is 46% lower than the 20,729 well completions reported by the CAODC for 2008. Activity in the third and 4th quarters of 2009 is forecast to be down from 2008 levels but visibility is very limited at this time.

In Papua New Guinea, the low oil price is also affecting activity levels and putting pressure on the Corporation to reduce its costs. Rig 103 continues to operate successfully and has the benefit of a three year contract that runs until December 31, 2010. The 18 month contract to operate Rig 101 was completed in the third quarter of 2008 and Rig 101 was replaced by a newly constructed heli-portable drilling rig, Rig 104, began drilling in December, 2008. High Arctic has a contract to manage and operate the Rig 104, similar to the contract for Rig 103, with a two year term that commenced on spud of its first well. Rig 102, a hydraulic workover rig, has been operating since June 2008 under a well to well contract. Our customer's capital spending plans in Papua New Guinea will depend in part on oil prices and the success of the drilling programs. The term of the Rig 103 and 104 contracts provide some protection to the Corporation against decreased activity, though the Corporation believes one of those rigs may still be shut down for some period of time during 2009. Rig 102 may also be shut down for some portion of 2009.

The Corporation expects to continue to reduce its activity in certain international area as it focuses on more promising opportunities elsewhere. The Corporation has already ceased business operations in Tunisia and India and reduced its activity in the Middle East region. The drilling operations in India have been completed and the RAPAD Rig used there is currently in transit to North America. The Corporation will continue to market for sale surplus assets as part of the reduced activity and as part of a plan to reduce debt and rationalize business operations. Management is committed to reduce the operations in any area that is not sufficiently profitable to justify the capital deployed and the management effort required.

For the Corporation to be successful in addressing the risks and opportunities outlined in this document, it must deal with its high debt levels. See "Liquidity and Capital Resources". The Corporation has been financially strained since early 2007 as a result of its international expansion and its capital expenditure program. It is difficult to predict the ultimate impact of deteriorating industry conditions; however, the Corporation has taken steps to minimize discretionary expenditures and will continue to carefully manage its financial resources. The Corporation will be dependent on the continued cooperation of its lenders until it improves its situation and it must continue to operate within its limited capital means and reduce debt.

Forward-Looking Statements

This MD&A contains forward-looking statements. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions are intended to identify forward-looking statements. Such statements reflect the Corporation's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation's actual results, performance or achievements to vary from those described in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected.

Specific forward-looking statements in this MD&A include, among others, statements pertaining to the following:

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

- expectations regarding the Corporation's ability to sell assets, raise capital and restructure its long-term debt obligations (including the Corporation's ability to obtain necessary waivers and extensions relating to the Credit Facilities);
- commodity prices and the impact that they have on industry activity;
- estimated capital expenditure programs for fiscal 2009 and subsequent periods;
- projections of market prices and costs;
- factors upon which the Corporation will decide whether or not to undertake a specific course of operational action or expansion;
- worldwide supply and demand for oilfield services;
- treatment under governmental regulatory regimes; and
- general economic conditions.

With respect to forward-looking statements contained in this MD&A, the Corporation has made assumptions regarding, among other things, its ability to:

- obtain equity and debt financing on satisfactory terms;
- market successfully to current and new customers;
- obtain equipment from suppliers;
- construct property and equipment according to anticipated schedules and budgets;
- remain competitive in all of its operations; and
- attract and retain skilled employees.

The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A, along with the risk factors set out in the Annual Information Form for the year ended December 31, 2008, including:

- the level of the Corporation's indebtedness and ability to comply with its covenant terms;
- liquidity risks, which may be exacerbated if the Corporation is unable to raise financing on terms acceptable to the Corporation or at all;
- reduction in industry activity levels in Western Canada primarily due to factors such as lower natural gas prices and the ability of customers to raise capital for exploration and development;
- credit risks associated with customers in the oil and gas industry, including the inability of a customers of the Corporation to pay for goods and services that have been provided;
- the ability to attract and retain qualified personnel throughout the organization;
- changes in legislation and the regulatory environment, including uncertainties with respect to royalty regimes and environmental initiatives;
- income tax matters including unanticipated tax and other expenses and liabilities of the Corporation in foreign jurisdictions;
- the worldwide demand for oilfield services in connection with the underbalanced drilling, workover and completion of oil and gas wells;

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

- volatilities in global supply and demand and market prices for oil and natural gas and the effect of these volatilities on the demand for oilfield services generally;
- general economic conditions in Canada, the United States, Mexico, Southeast Asia and elsewhere, including variations in exchange rates and interest rates;
- regional and international competition;
- risks inherent in foreign operations, including political and economic risk;
- liabilities and risks inherent in oil and gas operations, including environmental liabilities and risks;
- sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities, and skilled personnel;
- continuing success in developing and integrating technological advances and the ability to match advances of competitors;
- uncertainties in weather affecting the duration of the service periods and the activities that can be completed;
- the risks investors have by investing in a corporation, including changes in taxation laws, share status and investment eligibility;
- the cancellation of industry-standard type contract arrangements used by the Corporation including written contracts, that are cancellable by customers at any time, and verbal agreements; and
- the inability of the Corporation to successfully address potential material weaknesses in internal controls or other control deficiencies that would affect its ability to report its financial results on a timely and accurate basis and to comply with disclosure and other requirements.

The forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. These statements speak only as of the date of this MD&A. The Corporation does not assume any obligation, to update these forward-looking statements to reflect new information, subsequent events or otherwise, except as required by law.

Non-GAAP Terms

EBITDA (being earnings before the deduction of depreciation, amortization, interest and financing costs and income taxes), "Oilfield Services Operating Margin", "Oilfield Services Operating Margin %", "Operating working capital", "Operating working capital ratio", "market capitalization", "debt to capitalization ratio", "Consolidated total debt" and "CLR" are not recognized measures under GAAP. Management believes that, in addition to net earnings, EBITDA is a useful supplemental measure of the Corporation's performance prior to consideration of how operations are financed or how results are taxed. Investors are cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Corporation's performance. The Corporation's method of calculating EBITDA and other non GAAP items may differ from the methods used by other issuers and, accordingly, they may not be comparable to similarly titled measures used by other issuers.

Subsequent Events

On January 23, 2009 High Arctic closed a non-brokered placement of 3,000,000 common shares to certain directors and senior officers of the Corporation. The offering was completed at a price of \$0.20 per common share for aggregate proceeds of \$600,000. The offering was completed as a non-brokered private placement whereby certain directors and officers of the Corporation reinvested bonus amounts paid to them by High Arctic in exchange for the common shares.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
For the year ended December 31, 2008

During January 2009, the Corporation cancelled all of the outstanding Stock Appreciation Rights ("SARs") issued under its Stock Appreciation Rights Plan. In connection with the cancellation of the SARs, the Corporation issued stock options under its Share Option Plan to acquire an aggregate of 3,040,100 common shares at an exercise price of \$0.15 per common share.

Additional Information

Additional information on the Corporation, including the Information Circular dated April 17, 2008 and the Annual Information Form for the year ended December 31, 2008, can be found on SEDAR at www.sedar.com.