

High Arctic Energy Services Inc.
Consolidated Balance Sheets
As at March 31, 2009 and December 31, 2008
(\$ Million - Unaudited)

| | March 31, 2009 | December 31, 2008 |
|--|----------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 26.7 | 18.9 |
| Accounts receivable (Note 13) | 32.9 | 23.0 |
| Inventory | 3.0 | 2.1 |
| Prepaid Expenses | 0.4 | 0.9 |
| Assets related to Optimal discontinued operations (Note 14) | 8.1 | 8.0 |
| Assets related to Middle East discontinued operations (Note 14) | 2.9 | 5.1 |
| | 74.0 | 58.0 |
| Property and equipment (Note 3) | 60.0 | 62.4 |
| Assets held for sale including assets related to discontinued operations in the Middle East and Optimal (Notes 3 and 14) | 46.0 | 46.0 |
| | 180.0 | 166.4 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 27.7 | 18.3 |
| Income taxes payable | 11.1 | 9.4 |
| Due to related parties (Note 8) | 6.3 | 6.3 |
| Credit facility and bridge loan (Note 4) | 92.0 | 93.4 |
| Future income tax liabilities | 0.5 | 0.2 |
| Liabilities related to Optimal discontinued operations (Note 14) | 2.9 | 1.8 |
| Liabilities related to Middle East discontinued operations (Note 14) | 0.8 | 1.5 |
| | 141.3 | 130.9 |
| Convertible Debentures (Note 5) | 26.4 | 25.8 |
| | 167.7 | 156.7 |
| Shareholders' equity (Note 6) | 12.3 | 9.7 |
| | 180.0 | 166.4 |
| Basis of presentation (Note 1) | | |
| Commitments and contingencies (Notes 9 and 14) | | |
| See accompanying notes | | |

Approved on behalf of the Corporation by:

(signed) "Michael Binnion" Director

(signed) "Christopher Warren" Director

High Arctic Energy Services Inc.

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

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million except per unit amounts - Unaudited)

| | 2009 | 2008 |
|--|----------------|---------------|
| Revenue (Note 10) | 41.8 | 39.4 |
| Expenses | | |
| Oilfield services | 29.2 | 24.7 |
| General and administration | 2.6 | 3.5 |
| Share based compensation | 0.1 | 0.4 |
| Amortization | 2.6 | 3.3 |
| Foreign exchange (gain) loss | (0.1) | (0.9) |
| | <u>34.4</u> | <u>31.0</u> |
| Operating earnings | 7.4 | 8.4 |
| Interest | 3.3 | 6.3 |
| Financing Costs | 0.1 | 0.7 |
| (Gain) Loss on sale of property, equipment and investments | (0.2) | - |
| Net earnings (loss) before income taxes and discontinued operations | 4.2 | 1.4 |
| Income taxes | 1.6 | 1.3 |
| | <u>2.6</u> | <u>0.1</u> |
| Net earnings (loss) from continuing operations | 2.6 | 0.1 |
| Middle East Discontinued Operations, net of tax (Note 14a) | (0.3) | (2.1) |
| Optimal Discontinued Operations, net of tax (Note 14b) | (0.4) | (0.2) |
| | <u>1.9</u> | <u>(2.2)</u> |
| Net earnings (loss) and comprehensive income (loss) | 1.9 | (2.2) |
| Retained Deficit – beginning of period | (125.2) | (85.6) |
| | <u>(123.3)</u> | <u>(87.8)</u> |
| Retained Deficit– end of period | (123.3) | (87.8) |
| Earnings (loss) per share | | |
| - basic and diluted from continuing operations | \$ 0.06 | \$ 0.00 |
| - basic and diluted from discontinued operations | \$ (0.02) | \$ (0.05) |
| - basic and diluted | \$ 0.04 | \$ (0.05) |

Basis of presentation (Note 1)

See accompanying notes

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

| | 2009 | 2008 |
|---|--------------|--------------|
| Cash provided by (used in): | | |
| Operating activities | | |
| Net earnings (loss) from continued operations | 2.6 | 0.1 |
| Add non-cash items: | | |
| Amortization | 2.6 | 3.3 |
| Financing accretion and amortization | 1.1 | 2.4 |
| Share-based compensation | 0.1 | 0.4 |
| Future tax | 0.3 | - |
| Gain (loss) on sale of property and equipment | (0.2) | - |
| | <u>6.5</u> | <u>6.2</u> |
| Change in non-cash working capital balances (Note 11) | 0.3 | 9.2 |
| Cash flows from continuing operating activities | <u>6.8</u> | <u>15.4</u> |
| Investing activities | | |
| Property and equipment and rigs and equipment under construction | (0.7) | (2.9) |
| Proceeds on sale of property and equipment | 0.7 | 0.3 |
| Change in non-cash working capital balances (Note 11) | 0.1 | - |
| | <u>0.1</u> | <u>(2.6)</u> |
| Financing activities | | |
| Advances from (to) related parties | - | (0.2) |
| Change in credit facility | (1.9) | (0.5) |
| Issuance of shares, net of costs | 0.6 | - |
| | <u>(1.3)</u> | <u>(0.7)</u> |
| Net change in cash from continuing operations | <u>5.6</u> | <u>12.1</u> |
| Cash flow from discontinued operations | | |
| Operating activities | 1.4 | (2.7) |
| Investing activities | | |
| Proceeds on sales of property and equipment | - | 0.3 |
| Property and equipment | (1.1) | (5.8) |
| Financing activities | - | - |
| | <u>0.3</u> | <u>(8.2)</u> |
| Net change in cash from discontinued operations | <u>0.3</u> | <u>(8.2)</u> |
| Net increase (decrease) in cash and cash equivalents | <u>5.9</u> | <u>3.9</u> |
| Cash and cash equivalents – beginning of period | <u>22.2</u> | <u>21.0</u> |
| Cash and cash equivalents – end of period | <u>28.1</u> | <u>24.9</u> |
| Cash reported as assets related to discontinued operations | <u>(1.4)</u> | <u>(8.4)</u> |
| Cash and cash equivalents | <u>26.7</u> | <u>16.5</u> |
| Supplemental information | | |
| Cash paid for: | | |
| Interest | 1.1 | 3.9 |
| Income taxes | - | - |
| Basis of presentation (Note 1) | | |
| See accompanying notes | | |

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

1 Basis of Presentation

High Arctic Energy Services Inc. (the "Corporation" or "HAES") is incorporated under the laws of Alberta, Canada, with a principal focus to provide specialized drilling and well completion services to the Canadian and international oil and gas industry. The Corporation's Canadian operations are considered to have some seasonality with peak levels in the first and fourth quarters.

Going Concern

These unaudited consolidated financial statements are stated in Canadian dollars and have been prepared by management 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 maturity date for repayment of its outstanding debt. The Corporation has obtained waivers and amendments to its loan covenants (Note 4) required as a result of not generating sufficient cash flows from operations and not completing the asset sales required under the terms of its senior credit facility. 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.

2 Accounting Policies

The unaudited interim financial statements of the Corporation and its subsidiaries are presented in accordance with Canadian GAAP. These statements have been prepared using the same accounting policies and methods of computation as described in the financial statements for the year ended December 31, 2008, except as noted below. Accordingly, they should be read in conjunction with the annual audited financial statements and notes thereto for the period ended December 31, 2008.

New Accounting Policies

As disclosed in the December 31, 2008 financial statements, the company adopted the following sections from the Canadian Institute of Chartered Accountants ("CICA") handbook:

- 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 adoption of this standard has had no material impact on the Financial Statements.
- Credit risk and fair value of financial assets and liabilities Emerging Issues Committee abstract 173 is effective on January 1, 2009 and requires entities to take both counterparty and their own credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. The fair values of the Company's assets and liabilities could be lower than carrying value due to the going concern issues discussed in Note 1.

Future Accounting Changes

In February 2008 the Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use International Financial Accounting Standards (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

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

reported by the Company for the year ended December 31, 2010. The Company has begun assessing the impact of IFRS for 2011 and comparative numbers for 2010. Management has prepared a plan to address the adoption process. The impact of adopting IFRS on the company's financial results cannot be reasonably determined at this time.

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 Section 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 has not yet been assessed and cannot reasonably be estimated at this time.

Comparative Figures

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

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

3 Property and Equipment

March 31, 2009

| | Cost | Accumulated Amortization | Net |
|--|-------|--------------------------|------|
| Automotive | 3.2 | 1.2 | 2.0 |
| Computer hardware | 0.5 | 0.3 | 0.2 |
| Computer software | 0.8 | 0.6 | 0.2 |
| Equipment – rental, support and shop | 11.1 | 5.6 | 5.5 |
| Equipment – drilling support | 9.7 | 3.0 | 6.7 |
| Equipment – hydraulic workover & UB rigs | 36.2 | 14.1 | 22.1 |
| Equipment – stand alone, rig assist & nitrogen pumping | 47.3 | 24.8 | 22.5 |
| Equipment – office | 0.5 | 0.2 | 0.3 |
| Leasehold improvements | 0.9 | 0.8 | 0.1 |
| Rigs and Equipment under construction | 0.4 | - | 0.4 |
| | 110.6 | 50.6 | 60.0 |

December 31, 2008

| | Cost | Accumulated Amortization | Net |
|--|-------|--------------------------|------|
| Automotive | 3.1 | 1.0 | 2.1 |
| Computer hardware | 0.5 | 0.3 | 0.2 |
| Computer software | 0.8 | 0.6 | 0.2 |
| Equipment – rental, support and shop | 11.3 | 5.3 | 6.0 |
| Equipment – drilling support | 9.6 | 2.3 | 7.3 |
| Equipment – hydraulic workover & UB rigs | 36.0 | 13.6 | 22.4 |
| Equipment – stand alone, rig assist & nitrogen pumping | 47.3 | 23.8 | 23.5 |
| Equipment – office | 0.5 | 0.2 | 0.3 |
| Leasehold improvements | 0.9 | 0.8 | 0.1 |
| Rigs and Equipment under construction | 0.3 | - | 0.3 |
| | 110.3 | 47.9 | 62.4 |

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

In addition to the value held in property and equipment at March 31, 2009, the corporation had property and equipment classified and recorded as assets held for sale including assets related to discontinued operations of \$46.0 million (December 31, 2008 - \$46.0 million). The following amounts are included in the balance:

| <u>Assets held for sale including assets related to discontinued operations</u> | March 31, 2009 | December 31, 2008 |
|--|-----------------------|--------------------------|
| Equipment Held for Sale in Canada | 11.7 | 10.4 |
| Equipment held for sale related to discontinued operations from the Middle East (Note 14) | 13.6 | 14.6 |
| Equipment held for sale related to discontinued operations from Optimal Pressure Drilling Services (Note 14) | 20.7 | 21.0 |
| | 46.0 | 46.0 |

4 Revolving Credit Facility and Bridge Loan

The Corporation has a revolving credit facility with a syndicate of commercial lenders. The facility is comprised of a \$20-million revolving loan ("Facility A") and a \$100-million equipment-based revolving loan ("Facility B"). Facility A may be drawn to a maximum of the lesser of \$20-million and the total of 75% of eligible Canadian accounts receivable aged less than 90 days and 90% of eligible foreign receivables insured by the Export Development Canada (the "Facility A Borrowing Base"). Facility B may be drawn to a maximum of the lesser of \$100-million and 75% of the appraised orderly liquidation value of eligible equipment (the "Facility B Borrowing Base"). The Corporation also entered into a bridge facility credit agreement with one of the syndicate lenders dated July 12, 2007 for a \$20-million bridge loan facility (the "Bridge Loan"). The obligations under the revolving credit facility and the Bridge Loan are secured by, among other things, the pledge of accounts receivable and the eligible equipment pursuant to debentures under which the Corporation and certain subsidiaries grant security over all of their respective assets. The lenders have also taken security over any proceeds arising under the put & call agreement described in Note 14.

As at March 31, 2009, the Corporation owed approximately \$4.1 million on Facility A (2008 – \$4.2 million), \$67.9 million on Facility B (2008 - \$69.7 million) and \$20.0 million on the Bridge Loan (2008 – \$20.0 million) (the aggregate amounts owing on Facility A, Facility B and the Bridge Loan are herein referred to as the "Senior Consolidated Debt"). Accordingly, the Senior Consolidated Debt was approximately \$92.0 million at March 31, 2009 (December 31, 2008 - \$93.9 million), excluding debt issue costs that were offset against that amount as reported on the balance sheet. The interest rate applicable to all prime loans under the revolving credit facility is prime plus 2% for amounts drawn up to 2.75x consolidated earnings before interest, depreciation, amortization and taxes and prime plus 4% for the excess drawn over the 2.75x amount. The interest rate applicable to the Bridge Loan is prime plus 6.25%.

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 5). The Corporation does not expect to have the capacity to repay the Senior Consolidated Debt on its June 12, 2009 maturity date and expects that extensions of the maturity date will be required.

On June 6, 2008, the revolving term period of Facility A and Facility B was extended to March 31, 2009. By a further amendment dated April 30, 2009 and effective March 31, 2009, the following changes were made to the terms and conditions of the senior credit facilities:

- the maturity date of the revolving credit facility and the Bridge Loan was extended to June 12, 2009 (the "Maturity Date") and the full principal amount and any outstanding fees are now due at that time;
- the financial covenants and mandatory asset sale requirements have been waived to the Maturity Date; and

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

- the Corporation is not permitted any further draws under the revolving credit facility.

The corporation hopes to negotiate an extension of the revolving credit facility and the Bridge Loan beyond the Maturity Date. The outcome of the negotiations, including any new terms and conditions, cannot be predicted at this time.

Maintaining a minimum Consolidated Leverage Ratio ("CLR") is one of the key financial ratio covenants under the revolving credit facility. The 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 March 31, 2009, the Corporation had a CLR of approximately 3.15 to 1.0 compared to the required minimum of 2.75 to 1.0. The CLR breach was subsequently waived for March 31, 2009 and through to the Maturity Date. New CLR minimums will likely be included in any extension of the Maturity Date.

As at March 31, 2009, the Corporation had unpaid fees of \$3.8 million related to amendments to the Senior Consolidated Debt made in 2007 and 2008. An amount of \$2.0 million was paid on May 1, 2009 and the balance is due on June 12, 2009. As at March 31, 2009, the liability for the unpaid cash fees of \$3.8 million has been fully accrued. The fees incurred to March 31, 2009 have been fully amortized using the effective interest rate method over the period to March 31, 2009. A total of \$0.5 million of the fees were expensed as interest in the three months ended March 31, 2009 (2008 - \$1.4 million).

As part of the loan amendments in 2007 and 2008, the Corporation issued to its lenders 1,500,000 warrants to purchase common shares of the Corporation until June 20, 2010 at an exercise price of \$1.09 per common share.

5 Convertible Debentures

In 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 4, except the consolidated debt used in the numerator includes the convertible debentures. The Consolidated Leverage Ratio remained below 5.0 to 1.0 at March 31, 2009.

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 March 31, 2009, 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.

As the convertible debentures are considered a compound financial instrument, the liability and equity components are presented separately. The debentures have been accounted for using the residual method, resulting in an equity element stemming from the call option in the amount of \$2.8 million, net of related issue costs of \$0.2 million, being credited to shareholders' equity. The liability was valued using an estimated borrowing rate of 16%. Accretion expense related to the liability component of \$0.5 million was recorded in the three months ended March 31, 2009 (2008 - \$0.5 million).

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

6 Share Capital

(a) Details of Shareholders' Equity

Authorized

An unlimited number of common shares and an unlimited number of preferred shares may be issued.

Issued

| | March 31, 2009 | December 31, 2008 |
|---|-------------------|----------------------|
| Common shares (b) | 126.9 | 126.3 |
| Warrants (c) | 1.7 | 1.7 |
| Equity element of convertible debentures (Note 5) | 2.8 | 2.8 |
| Contributed surplus (d) | 4.2 | 4.1 |
| Retained earnings (Deficit) | (123.3) | (125.2) |
| | <u>12.3</u> | <u>9.7</u> |

(b) Changes in Issued Shares

| | March 31, 2009 | | December 31, 2008 | |
|---------------------------|-------------------|--------------|-------------------|--------------|
| | Shares | \$ | Shares | \$ |
| Opening Balance | 42,442,325 | 126.3 | 42,442,325 | 126.3 |
| Issuance of Shares | 3,000,000 | 0.6 | - | - |
| Common Shares Outstanding | <u>45,442,325</u> | <u>126.9</u> | <u>42,442,325</u> | <u>126.3</u> |

Issuance of Shares

On January 23, 2009 the corporation issued 3,000,000 common to certain directors and senior officers of the Corporation at an issue price of \$0.20 per share. The offering was completed as a non-brokered private placement, whereby certain officers and directors reinvested bonus amounts paid to them by the Corporation.

(c) Warrants

| | March 31, 2008 | December 31, 2008 |
|---|-------------------|----------------------|
| Opening Balance | 1.7 | 1.1 |
| June 6, 2008 Renegotiation of Facility (Note 4) | - | 0.6 |
| Closing Balance | <u>1.7</u> | <u>1.7</u> |

(d) Contributed Surplus

| | March 31, 2008 | December 31, 2008 |
|-----------------------------------|-------------------|----------------------|
| Opening Balance | 4.1 | 0.8 |
| Share-based compensation (Note 7) | 0.1 | 3.3 |
| Closing Balance | <u>4.2</u> | <u>4.1</u> |

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

(e) Per Share Amounts

The weighted average number of common shares outstanding for the year ended March 31, 2009 was 44,708,992 basic and fully diluted shares (2008 – 42,442,325 fully and basic diluted respectively). All potentially dilutive instruments such as options, warrants and the convertible debentures are anti-dilutive.

7 Share-based Compensation Plan

The Corporation has a Share Option Plan that provides incentive for directors, management and key employees that offers options to purchase shares. A total of 4,544,232 options (being 10% of all outstanding shares) are available for grants under the plan.

At March 31, 2009, a total of 4,062,850 options are outstanding and expire at various dates up to 2013, at amounts that range from \$0.15 to \$13.57 per share. These options have a term of 5 years and allow the holder to exercise their options over a three-year vesting period with 40% exercisable on the first anniversary date, 30% on the second anniversary date and 30% on the third anniversary date. The options have an average remaining contractual life of 4.41 years and 429,175 options are currently exercisable.

| | Number of Shares | Weighted Average Exercise Price \$/Share |
|--|------------------|--|
| Total Outstanding January 1, 2008 | 4,151,750 | 4.69 |
| Granted | 415,500 | 0.77 |
| Exercised | - | - |
| Cancelled | (2,871,500) | 4.59 |
| Forfeited | (508,850) | 3.96 |
| Total Outstanding December 31, 2008 | 1,186,900 | 3.88 |
| Granted | 3,060,100 | 0.15 |
| Exercised | - | - |
| Cancelled | (150,000) | 2.88 |
| Forfeited | (34,150) | - |
| Total Outstanding March 31, 2009 | 4,062,850 | 1.12 |

| Exercise Price Range | Options Outstanding | | | Exercisable Options | |
|---|---------------------|------------------------------------|--------------------------------------|---------------------|--------------------------------------|
| | Number of Options | Remaining Contractual Life (Years) | Weighted Average Exercise Price (\$) | Number of Options | Weighted Average Exercise Price (\$) |
| \$0.15 to \$1.99 | 3,555,100 | 4.69 | 0.26 | 46,000 | 1.74 |
| \$2.00 to \$3.99 | 197,750 | 2.98 | 2.80 | 133,475 | 2.81 |
| \$4.00 to \$6.99 | 53,000 | 2.70 | 6.19 | 37,100 | 6.19 |
| \$7.00 to \$9.99 | 105,500 | 2.51 | 9.70 | 73,850 | 9.70 |
| \$10.00 to \$13.57 | 151,500 | 1.69 | 11.14 | 138,750 | 11.02 |
| Total Outstanding March 31, 2009 | 4,062,850 | 4.41 | 1.12 | 429,175 | 6.83 |

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

The Corporation recognized share-based compensation expense of \$0.1 million for the three months ended March 31, 2009 (2008 - \$0.4 million) based on amortizing the expense over the vesting period using the Black-Scholes model. The options valued prior to December 31, 2007 used an average risk-free interest rate of 4.2%; average expected life of 5 years; expected volatility of 40% to September 30, 2007 and 75% thereafter and a weighted average estimate of distribution yield of nil. The 2008 options were valued using an average risk-free interest rate of 3.4%; average expected life of 5 years; expected volatility of 67.6% and an expected annual dividend yield of nil. The options in 2009 were valued with an average expected volatility of 78.9%, a risk free interest rate of 1.57%, expected annual dividend yield of 0.0% and an expected life of 5 years.

8 Related Party Transactions

In the normal course of business, during the three months ended March 31, 2009, the Corporation incurred general and administration expenses related to premises rent of \$0.3 million (2008 - \$0.3 million) and equipment and vehicle leases payments of \$0.1 million (2008 - \$0.2 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.

These transactions 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 subordinated to the revolving credit facility and Bridge Loan (see Note 4). Interest expense for the three months ended March 31, 2009 includes \$0.1 million pertaining to this loan (2008 - \$0.1 million).

A further amount of \$4.3 million (2008 - \$ 3.2 million) is owed to the Former CEO, and companies controlled by him, as at March 31, 2009 on account of various transactions. The amounts are unsecured, repayable on demand (but generally subordinated to the revolving credit facility and Bridge Loan) and non-interest bearing. For the three months ending, 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 14) engaged the services of a director and incurred fees during the three months ended March 31, 2009 of approximately \$46,000 that are recorded in Optimal Pressure Drilling Services. (2008 - \$51,000).

9 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.

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 was taken and a further write-down of \$2.7 million taken in 2008. The write-downs were applied to both the Canadian business, which is ongoing, and the Middle East that has been reported as a discontinued operation (Note 14). These 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.

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

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 March 31, 2009, 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.

Lease Obligations

The Corporation has entered into long-term premises and equipment leases with the Former CEO, as described in Note 8, that expire in 2009 and 2010. The premises lease for the head office of the Corporation expires in 2009 and contains an option to renew for a further five years.

In addition, the Corporation has entered into lease obligations in Papua New Guinea for equipment and premises with arms length parties. Future minimum lease payments as at March 31, 2009 are:

| | \$ |
|-------------------|------------|
| To March 31, 2010 | 1.0 |
| To March 31, 2011 | 0.2 |
| To March 31, 2012 | 0.1 |
| | <u>1.3</u> |

10 Segmented Information

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

| <u>Revenue</u> | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 |
|---------------------|---|---|
| Canada | 12.9 | 21.2 |
| International | | |
| Papua New Guinea | 28.7 | 18.2 |
| Other | 0.2 | - |
| Total International | <u>28.9</u> | <u>18.2</u> |
| | <u>41.8</u> | <u>39.4</u> |

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

| <u>Property and Equipment and Assets Held for Sale from continuing operations</u> | As at March 31, 2009 | As at December 31, 2008 |
|---|-------------------------|----------------------------|
| Canada | 56.2 | 56.7 |
| Papua New Guinea | 15.5 | 16.1 |
| | <u>71.7</u> | <u>72.8</u> |

11 Supplementary Information

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

| | Three months ended March 31, 2009 | Three months ended March 31, 2008 |
|---|---|---|
| Operations | | |
| Accounts receivable, work-in-progress | (9.9) | 3.2 |
| Inventory and prepaid expenses | (0.4) | 0.9 |
| Accounts payable and accrued liabilities, income taxes payable, amortization of accrued fees and prepaid mobilization revenue | <u>10.6</u> | <u>5.1</u> |
| | <u>0.3</u> | <u>9.2</u> |
| Investing | | |
| Accounts payable and accrued liabilities | <u>0.1</u> | <u>-</u> |
| | <u>0.4</u> | <u>9.2</u> |

12 Capital Disclosures

The Corporation's capital structure is comprised of Shareholders' Equity, described in Note 6, Convertible Debentures, described in Note 5, plus the Revolving Credit Facility and Bridge Loan (the "Credit Facility") described in Note 4.

| | March 31, 2009 | December 31, 2008 |
|---------------------------------------|-------------------|----------------------|
| Shareholders Equity | 12.3 | 9.7 |
| Convertible Debentures ⁽¹⁾ | 27.9 | 27.9 |
| Credit Facility ⁽¹⁾ | 92.0 | 93.9 |
| Cash and cash equivalents | <u>(26.7)</u> | <u>(18.9)</u> |
| Total Capitalization | <u>105.5</u> | <u>112.6</u> |

(1) The Convertible Debentures and the Credit Facility are shown at their principal amounts owing. The amounts reported on the balance sheet may differ because issue costs and equity elements have been netted against the principal amount.

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

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

that it 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 the expansion of its international business. Its current debt levels are above prevailing industry standards and severely limit the financial flexibility of the Corporation.

The Corporation must continue to reduce its debt levels to meet the financial covenant tests imposed under the Credit Facility. Sales of non-performing and underutilized assets are being actively pursued to generate funds to pay down the Credit Facility. Future equity financings are a possibility to further reduce the risk associated with the current highly leveraged capital structure. Financing decisions for the foreseeable future will be governed largely by the requirement to reduce debt and manage the covenants imposed under the Credit Facility, as more fully discussed in Note 4. Longer term, once the debt levels are reduced to acceptable levels, financing decisions will be based on the timing and extent of expected operating and capital cash outlays.

The Corporation monitors its debt levels and ability to service the debt using non-GAAP financial metrics with the primary one being the Consolidated Leverage Ratio or CLR. The CLR is defined in the revolving credit facility agreement as, in general terms, consolidated total debt, excluding the Convertible Debentures, as defined, divided by the 12-month trailing adjusted consolidated earnings before interest, depreciation, amortization and taxes (EBITDA). The Corporation's objective is to reduce the CLR to a level of 2.00 to 1.0, or better, compared to the March 31, 2009 level of 3.15 to 1.0.

| | Twelve Months Ended March 31, 2009 | Twelve Months Ended December 31, 2008 |
|--|---------------------------------------|--|
| Consolidated Total Debt | 92.0 | 93.9 |
| Net earnings (loss) and comprehensive income (loss) | (35.5) | (39.6) |
| Add (deduct): | | |
| Interest and financing | 18.3 | 21.9 |
| Income tax | 5.3 | 5.3 |
| Amortization | 13.5 | 15.2 |
| Gain on sale of property and equipment | 2.2 | 2.1 |
| Asset impairment | 20.0 | 20.0 |
| Foreign Exchange (gain)/loss, net | (2.9) | (4.0) |
| Stock based compensation | 3.0 | 3.3 |
| Write-down of long-term receivable (Note 11) | 2.7 | 2.7 |
| Adjustment for discontinued operations | 2.4 | 1.1 |
| Optimal Pressure Drilling Services | 0.2 | 0.8 |
| Adjusted EBITDA (Twelve Month) | 29.2 | 28.8 |
| Consolidated Leverage Ratio | 3.15 | 3.26 |

The Corporation's maximum allowable CLR at March 31, 2009 was 2.75 to 1.0. The CLR covenant breach has been waived for March 31, 2009. See Note 4.

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

13 Financial Instruments and Risk Management

Fair Value of Financial Assets and Liabilities

The Company's cash and cash equivalents are designated as held-for-trading and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable and due from Optimal Pressure Drilling Services are designated as loans and receivables and recorded at amortized cost, which approximates fair value due to the short term nature of the instrument. Accounts payable and accrued liabilities, due to related party, the credit facility and Bridge Loan and convertible debentures are designated as other liabilities and are recorded at cost. The fair values of the Company's assets and liabilities could be lower than carrying value due to the going concern issues discussed in Note 1.

Financial Risks

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk relating to interest rates, foreign currency risk, commodity price risk, credit risk and liquidity risk.

Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk as the revolving credit facility and Bridge Loan are floating rate credit facilities and will fluctuate in response to changes in market interest rates. For the three months ended March 31, 2009, an increase or decrease in interest expense for each one percent change in interest rates on revolving credit facility and Bridge Loan would have amounted to \$0.2 million.

Foreign Currency Risk

Foreign exchange risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results. The majority of the Corporation's international revenue and expenses are transacted in U.S. dollars and the Corporation does not actively engage in foreign currency hedging.

For the three months ended March 31, 2009, a 1% increase in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a \$0.5 million decrease in earnings as a result of changes in foreign exchange.

Commodity Price Risk

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

Credit Risk

Credit risk is the risk of a financial loss occurring as a result of a default by a counterparty on its obligation to the Corporation. The Corporation's financial instruments that are exposed to credit risk consist primarily of accounts receivable and cash balances held in banks. The Corporation mitigates credit risk by regularly monitoring its accounts receivable position and depositing cash in properly capitalized banks. The Corporation also institutes detailed credit reviews prior to commencement of contractual arrangements and where practical uses export credit insurance provided by Export Development Canada.

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

Customers

The Corporation's account receivables are predominantly with customers who explore for and develop petroleum reserves and are subject to normal industry credit risks. The Corporation assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding. The Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has over 400 customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation has two significant customers. The first significant customer is a major Canadian exploration and production company which represents approximately 5.6% of the Corporation's revenue for the three months ended March 31, 2009 and 1.2% of the Corporation's accounts receivable at that date. The services provided to this customer are distributed within this 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 approximately 68.6% of the Corporation's revenue for the three months ended March 31, 2009 and 75.8% of its accounts receivable at that date. Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with either customer.

The aging of accounts receivables as at March 31, 2009 is as follows:

| | \$ |
|-------------------------------|-------------|
| 0 to 30 days | 21.3 |
| 31 to 60 days | 7.9 |
| 61 to 90 days | 1.0 |
| Greater than 90 days | 3.8 |
| Allowances for doubtful debts | (1.1) |
| Total | 32.9 |

The allowance for doubtful debts provision is based on an individual account by account analysis and the customer's prior credit history.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Corporation seeks to manage its financing based on the results of these processes. The budgets are updated when required as conditions change (see Note 12).

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

The following are the contractual maturities of financial liabilities in the future fair value amounts:

| | 1 Year | 2-3 Years | 4-5 Years | Beyond 5 Years | Total |
|---|--------------|------------|-------------|-------------------|--------------|
| Accounts Payable | 27.7 | - | - | - | 27.7 |
| Current Tax Payable | 11.1 | - | - | - | 11.1 |
| Liabilities related to Discontinued Operations (Note 16) | 3.7 | - | - | - | 3.7 |
| Convertible Debentures | - | - | 27.9 | - | 27.9 |
| Due to Related Parties | - | 6.3 | - | - | 6.3 |
| Bridge Loan | 20.0 | - | - | - | 20.0 |
| Credit Facility | 72.0 | - | - | - | 72.0 |
| Total | 134.5 | 6.3 | 27.9 | - | 168.7 |

See Note 1 for further information in relation to liquidity.

14 Discontinued Operations

(a) Middle East Region 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 and the decision was made to discontinue operations in that region to the extent possible. The Corporation has divested of assets through sales and has used the proceeds on sales to reduce its debt. At December 31, 2008 the remaining assets were classified as held for sale.

The Middle East region operations are in the same general industry as the other regions of the Corporation and therefore this region was not a separate segment, as it had similar characteristics of the other geographical regions. The cash flows of this component were tracked separately by management and were managed as a separate geographical oilfield service component within the overall corporate structure. Accordingly, it has been accounted for as a discontinued operation.

Comparative figures have been adjusted to remove activities in the Middle East, Tunisia and India operations and to report those amounts as a discontinued operation. The following amounts have been included in the March 31, 2009 and December 31, 2008 Consolidated Balance Sheets.

| | March 31, 2009 | December 31, 2008 |
|--|-----------------------|--------------------------|
| Accounts Receivable | 2.9 | 5.1 |
| Total current assets related to discontinued operations | 2.9 | 5.1 |
| Assets held for sale related to discontinued operations | 13.6 | 14.6 |
| Discontinued assets held for sale (Note 3) | 13.6 | 14.6 |
| | March 31, 2009 | December 31, 2008 |
| Current liabilities related to discontinued operations | | |
| Accounts payable and accrued liabilities | 0.8 | 1.5 |
| Total current liabilities related to discontinued operations | 0.8 | 1.5 |

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

The following amounts have been included in the results for the three months ended March 31, 2009 and 2008 Consolidated Statements of Net Earnings (Loss), Comprehensive Income (Loss) and Retained Earnings (Deficit):

| | Three months ended March 31, 2009 | Three Months ended March 31, 2008 |
|--|---|---|
| Revenue | 0.8 | 5.3 |
| Expenses | | |
| Oilfield services | 0.8 | 5.8 |
| General and administration | 0.1 | 1.2 |
| Amortization | - | 0.5 |
| Foreign exchange (gain) loss | (0.1) | (0.1) |
| | 0.8 | 7.4 |
| Operating earnings (loss) | - | (2.1) |
| (Gain) Loss on sale of property, equipment and investments | 0.3 | (0.3) |
| Net earnings (loss) before income taxes | (0.3) | (1.8) |
| Income taxes (recovery) | - | 0.3 |
| Discontinued Operations, net of tax | (0.3) | (2.1) |

(b) Optimal Pressure Drilling Services Discontinued Operations

On April 27, the Corporation announced that it had entered into a non-binding expression of interest to sell its interest in Optimal Pressure Drilling Services to the Schlumberger Group. The financial results for the three months ended March 31, 2009 and comparative figures have been adjusted to remove activities related to Optimal Pressure Drilling Services and to report those amounts as a discontinued operation as the plan to sell this division was internally approved prior to March 31, 2008..

On December 31, 2007 the Corporation formed a joint venture ("Optimal Pressure Drilling Services") with the Schlumberger group ("Schlumberger") for the purpose of providing underbalanced drilling ("UBD") services and managed pressure drilling ("MPD") services to the worldwide upstream oil and gas industry. The principal customer of Optimal Pressure Drilling Services is currently Schlumberger. Optimal Pressure Drilling Services is operated through separate legal entities (the "JV Entities"), including Optimal Pressure Drilling Services Inc., a Canadian corporation ("Optimal Canada") and Optimal Pressure Drilling Services, S.A. DE C.V., a Mexican corporation ("Optimal Mexico").

Optimal Pressure Drilling Services is owned 51% by the Corporation and 49% by Schlumberger through direct investments in the JV Entities. As part of the initial formation of Optimal Pressure Drilling Services, the Corporation sold its existing UBD and MPD equipment and the technology associated with its existing UBD and MPD businesses, including intellectual property rights, to those entities for proceeds of approximately US\$18.2 million.

As per the terms of the joint venture agreement, the parties entered into a put & call agreement that allows the Corporation to sell its interest to Schlumberger or Schlumberger to purchase the interest of the Corporation based on a certain premium to the fair market value of the JV Entities at the time of exercise, as determined under the put & call agreement. The put & call agreement contains the procedures for determining the fair

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

market value at the time of exercise. Following an exercise of the put or the call, the Corporation would be prevented from conducting UBD and MPD activities and competing directly or indirectly with Schlumberger and the JV Entities for a period of three (3) years. However, this non-compete provision will not apply to UBD and MPD activities conducted by the Corporation within Canada, the United States of America, Western Europe and Papua New Guinea.

The joint venture agreement set out the initial cash contribution commitment to the JV Entities that was required to meet their anticipated capital requirements for the first year. The cash contributions were being used by Optimal Pressure Drilling Services to fund the purchase of equipment required for the business and for working capital. The Corporation's portion of the initial cash commitment was US\$33.2 million, of which US\$18.9 million was paid on closing at December 31, 2007, and a further US\$9.5 million was paid during 2008. Of the US\$28.4 million, advanced by the Corporation to March 31, 2009, an amount of US\$0.8 million was paid to Optimal Canada in the form of share capital and US\$27.6 million was paid to Optimal Mexico in the form of an interest bearing shareholder loan of US\$20.7 million and share capital of US\$6.9 million. The shareholder loan is unsecured, bears interest at a rate of 8% per annum payable quarterly, the principal is repayable at any time at the option of Optimal Mexico and the Corporation is entitled to full repayment upon ceasing to be a shareholder. Schlumberger contributed proportionate amounts based on its 49% interest.

Optimal Pressure Drilling Services commenced operations January 1, 2008. Summarized financial information (in CDN\$) for the Corporation's 51% proportionate interest in the JV Entities is as presented below. Balance Sheet amounts are shown for March 31, 2009 and December 31, 2008 while Income Statement information represents the 51% proportionate results for the three months ended March 31, 2009 and March 31, 2008.

| <u>Balance Sheet</u> | March 31, 2009 | December 31, 2008 |
|--|-----------------------|--------------------------|
| Cash | 1.4 | 3.3 |
| Deposits and prepaid expenses | 0.2 | 0.2 |
| Accounts receivable | 5.9 | 3.5 |
| Total current assets | 7.5 | 7.0 |
| Construction in Progress | 2.5 | 4.2 |
| Property and equipment | 19.3 | 17.9 |
| Total assets | 29.3 | 29.1 |
| Accounts payable | 2.9 | 1.8 |
| Interest Payable to High Arctic Energy Services | 2.0 | 1.6 |
| Due to High Arctic Energy Services | 0.6 | 1.0 |
| Notes payable to shareholders | 25.8 | 25.3 |
| Total liabilities | 31.3 | 29.7 |
| Shareholders' equity & retained earnings (deficit) | (2.0) | (0.6) |
| Total liabilities and shareholders' equity | 29.3 | 29.1 |

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

| | Three months ended March 31, 2009 | Three months ended March 31, 2008 |
|------------------------------|--------------------------------------|--------------------------------------|
| Revenue | 4.0 | 1.5 |
| Expenses | | |
| Oilfield services | 3.1 | 1.3 |
| General and administration | 0.2 | 0.1 |
| Amortization | 1.0 | 0.5 |
| Foreign exchange (gain) loss | 0.7 | 0.2 |
| Interest | 0.5 | 0.3 |
| Net earnings (loss) | <u>(1.5)</u> | <u>(0.9)</u> |

As part of the consolidation process, certain intercompany balances are eliminated for consolidated financial statements reporting purposes, including the interest, notes payable and receivable balances on the High Arctic Loan. The Corporation also has deferred a gain on sale of \$1.4 million on the equipment sold to the JV Entities from 2007 and is included in income on a basis consistent with the future amortization of the related assets by the JV Entities. A gain of \$0.3 million has been recognized to date relating to the original sale and the remaining gain of \$1.1 million has been deferred and remains to be brought into income.

Certain adjustments are required to be made in determining the amounts reported as discontinued operations for the purposes of reporting in the Consolidated Financial Statements of High Arctic Energy Services Inc. The following schedule provides reconciliation between the 51% proportionate results reported above for the 3 months ended March 31, 2009 and March 31, 2008 and the loss from discontinued operations reported on the Income Statement.

| | Three months ended March 31, 2009 | Three months ended March 31, 2008 |
|---|--------------------------------------|--------------------------------------|
| Net earnings (loss) | (1.5) | (0.9) |
| Adjustments | | |
| Foreign Exchange Adjustment on consolidation | 0.6 | 0.4 |
| Interest eliminated between consolidated entities | 0.4 | 0.3 |
| Amortization expense related to amortized gain | 0.1 | - |
| Discontinued Operations, net of tax | <u>(0.4)</u> | <u>(0.2)</u> |

In addition, the following reconciliations are necessary to obtain the results that are shown on the Consolidated Balance sheet for High Arctic Energy Services:

| | March 31, 2009 | December 31, 2008 |
|---|----------------|-------------------|
| Cash | 1.4 | 3.3 |
| Deposits and prepaid expenses | 0.2 | 0.2 |
| Accounts receivable | 5.9 | 3.5 |
| Due from Optimal Pressure Drilling Services | 0.6 | 1.0 |
| Total current assets related to discontinued operations | <u>8.1</u> | <u>8.0</u> |

High Arctic Energy Services Inc.

Consolidated Notes to the Financial Statements

For the three months ended March 31, 2009 and March 31, 2008

(\$ Million - Unaudited)

| | March 31, 2009 | December 31, 2008 |
|---|----------------|-------------------|
| Construction in Progress | 2.5 | 4.2 |
| Property and Equipment | 19.3 | 17.9 |
| Unamortized Gain on Sale of Assets to Optimal | (1.1) | (1.1) |
| Discontinued assets held for sale (Note 3) | 20.7 | 21.0 |

15 Subsequent Events

On April 27, 2009 the Corporation announced that it has signed a non-binding expression of interest to sell its interests in Optimal Pressure Drilling Services to the Schlumberger group. The proposed purchase price is US\$21.8 million and the parties have targeted May 31, 2009 as an anticipated closing. The Corporation's remaining cash call commitment of US\$4.7 million would also be extinguished as part of the sale.

On April 30, 2009 the corporation announced that it had received an extension of the maturity date for the senior credit facilities to June 12, 2009. As part of the extension, the covenants related to asset sales and financial covenants have been waived through to June 12, 2009.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

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", "High Arctic" or "HAES") for the three months ended March 31, 2009, as compared to the same period in 2008. 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 unaudited interim consolidated financial statements and accompanying notes for the three months ended March 31, 2009 (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 4 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 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 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 May 14, 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. The Corporation recently announced it had signed a non-binding expression of interest to sell its 51% share of Optimal Pressure Drilling Services to the Schlumberger group. The Corporation's 51% share of revenue and earnings (losses) from the joint venture have been reported as discontinued operations.

Capitalization

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

As at March 31, 2009 and May 14 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 March 31, 2009, a total of 4,062,850 share options were outstanding and expire at various dates

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

up to 2013, at amounts that range from \$0.15 to \$13.57 per share. As at May 14, 2009, there were a total of 3,536,350 share options outstanding.

There were 1,500,000 warrants outstanding as at March 31, 2009 and as at May 14, 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 May 13, 2009 was \$0.145 per share. Based upon 45,442,325 issued common shares, the Corporation has an approximate market capitalization of \$6.6 million.

Industry Indicators and Market Trends

The following table provides quarterly information for the last eight quarters to assist with the understanding of the oilfield services industry and the effect of 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 | 2009 | 2008 | | | | 2007 | | |
|--|---------|---------|----------|----------|---------|---------|---------|---------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Oil and natural gas prices | | | | | | | | |
| West Texas Intermediate (US \$ /bbl) | \$43.41 | \$59.08 | \$118.22 | \$123.80 | \$97.82 | \$90.50 | \$75.15 | \$65.02 |
| AECO (C\$ /Mcf) | \$5.63 | \$6.79 | \$9.24 | \$9.35 | \$7.13 | \$6.00 | \$5.61 | \$7.37 |
| Other industry indicators | | | | | | | | |
| Well completions in Western Canada ⁽¹⁾ | 4434 | 7912 | 4683 | 3148 | 4986 | 5212 | 4128 | 3232 |
| Gas well drilling in Western Canada ⁽¹⁾ | 2994 | 4997 | 2401 | 1670 | 3293 | 3543 | 2485 | 1803 |
| Active drilling rigs in Western Canada ⁽¹⁾ | 320 | 385 | 403 | 170 | 498 | 342 | 336 | 151 |
| Average drilling rig utilization rates ⁽¹⁾ | 37% | 44% | 46% | 19% | 56% | 38% | 38% | 17% |
| US/Canadian dollar exchange rate | 0.803 | 0.825 | 0.961 | 0.990 | 0.996 | 1.019 | 0.957 | 0.911 |

(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 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 prices for oil and natural gas have been lower in first quarter of 2009, when compared to the same period in 2008. Oil prices have increased slightly since the end of 2008; however, natural gas prices have continued to trend downwards. The lower commodity prices, especially for natural gas, will continue to have a negative impact on drilling in Western Canada.

The CAODC reported 4,434 wells were completed in Canada during the first quarter of 2009; a decrease of 552 (11%) wells as compared to the same period in 2008, which saw 4,986 wells completed. Gas well completions in the first quarter of 2009 totalled 2,994, which was a decrease of 299 (9%) gas wells as compared to the same period in 2008, which saw 3,293 gas well completions.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

The low commodity prices and tight financial markets will continue to have a negative impact on oil and gas company capital spending and drilling activity levels. The reduced drilling activity levels, combined with excess capacity in the oilfield services industry, has resulted in downward pressure on the Corporation's overall day rates. The reduced activity and the pressure to reduce prices have and will continue to have an adverse affect on the Corporation's Canadian 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 a decrease in its international activity in the latter half of 2009.

Foreign exchange rate fluctuations have an impact on the financial results of the Corporation. The Corporation has significant international operations and the lower Canadian dollar as compared to the U.S. dollar had a positive impact on the financial results in first quarter of 2009. The Corporation estimates that a 1% decrease in the average annual exchange rate of the U.S. dollar for 2009 would have increased net earnings by \$0.5 million.

Financial Highlights

- The Corporation recorded net earnings of \$1.9 million in the first quarter of 2009, which was a \$4.1 million improvement over a first quarter 2008 loss of \$2.2 million. Continuing operations had net earning of \$2.6 million, while discontinued operations had a loss of \$0.7 million. Both of the Corporation's core areas, Canada and Papua New Guinea, showed positive operating margins the first quarter of 2009.
- Total revenue of \$46.6 million during the 1st quarter of 2009, which was consistent with 2008 1st quarter revenue of \$46.2 million.
- Revenue from continuing operations increased by \$2.4 million (6%) to \$41.8 million in the 1st quarter of 2009, as compared to revenue of \$39.4 million during the same period of 2008.
- Canadian revenue declined by \$8.3 million (39%) to \$12.9 million in the quarter ended March 31, 2009, as compared to \$21.2 million in the same quarter of 2008. The decline was attributable to decreased activity, reduced day rates and one of the Corporation's major customers significantly reducing their activity.
- Revenue from operations in Papua New Guinea increased by \$10.5 million (58%) to \$28.7 million in the first quarter of 2009, as compared to revenue of \$18.2 million in the same quarter of 2008. The Corporation had two drilling rigs and one hydraulic workover rig working for all of the first quarter of 2009 compared to two drillings rigs in 2008. The hydraulic workover rig began operations in June 2008.
- On April 27, 2009, the Corporation announced it had signed a non-binding expression of interest to sell its 51% share of Optimal Pressure Drilling Services to the Schlumberger group. Revenue and earnings from Optimal Pressure Drilling Services have been included in discontinued operations. High Arctic's share of the loss for the first quarter of 2009 was \$0.4 as compared to a loss of \$0.2 million in the first quarter of 2008.
- Oilfield service expenses as a percentage of revenue, on a consolidated basis, was 71% in the quarter ended March 31, 2009, which was slightly higher than the quarter ended March 31, 2008 at 69%. 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. The increase in oilfield services expenses as a percentage of revenue was the result of lower activity levels and lower day rates in the Canadian market. Also contributing was the increased activity in Papua New Guinea, which has relatively higher oilfield expenses as a percentage of revenue due to the lease cost associated with the drilling rigs.
- Oilfield services operating margin was \$13.5 million; a decrease of \$0.9 million (6%) from the \$14.4 million in the quarter ended March 31, 2008. Continuing operations contributed \$12.6 million of the \$13.5 million oilfield services operating margin during the quarter ended March 31, 2009.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

- EBITDA of \$10.7 million (\$0.24 per share) for the three months ended March 31, 2009; an increase of \$0.3 million from EBITDA of \$10.4 million (\$0.25 per share) for the quarter of 2008.
- Earnings for the quarter ended March 31, 2009 were \$1.9 million (\$0.04 per share) compared to a net loss of \$2.2 million (\$0.05 per share) for the same period of 2008. Earnings from continuing operations were \$2.6 million (\$0.06 per share) during the first quarter of 2009 as compared to earnings of \$0.1 million (\$0.00 per share) in the first quarter of 2008.
- The Corporation continues to focus on debt reduction through the disposition of underutilized assets. The reduction in debt has resulted in interest expense and financing fees decreasing by \$3.5 million (50%), from \$7.0 million in the first quarter of 2008 to \$3.5 million in the first quarter of 2009.
- The Corporation took steps during 2008, and continued in 2009, to reduce unprofitable business operations in the Middle East region to reduce the drain on financial resources. During the first quarter of 2008, the discontinued operations in the Middle East region had a net loss of \$2.1 million. The net loss in the first quarter of 2009 was only \$0.3 million. More details can be found below under "Discontinued Operations".

Selected Information

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

| | Three months ended March 31 | | Year ended December 31 |
|---|--------------------------------|----------|---------------------------|
| | 2009 | 2008 | 2008 |
| \$ millions (except per share amounts) | | | |
| Revenue - continuing operations | 41.8 | 39.4 | 145.1 |
| - discontinued operations | 4.8 | 6.8 | 23.4 |
| - total | 46.6 | 46.2 | 168.5 |
| Net earnings (loss) before discontinued operations | 2.6 | 0.1 | (28.5) |
| Per share (basic and diluted) | \$0.06 | \$0.00 | \$(0.67) |
| Net earnings (loss) from discontinued operations | (0.7) | (2.3) | (11.1) |
| Per share (basic and diluted) | \$(0.02) | \$(0.05) | \$(0.26) |
| Net earnings (loss) | 1.9 | (2.2) | (39.6) |
| Per share (basic and diluted) | \$0.04 | \$(0.05) | \$(0.93) |
| EBITDA | 10.7 | 10.4 | 26.9 |
| Per share (basic and diluted) | \$0.24 | \$0.25 | \$0.63 |
| Total assets | 180.0 | 234.0 | 166.4 |
| Long term debt - Credit facility and bridge loan | 92.0 | 124.2 | 93.4 |
| - Convertible debentures | 26.4 | 23.9 | 25.8 |

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

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 three months ended March 31, 2009 and 2008.

| Three months ended March 31 | | | | | | | | |
|--|-------------------------|--------------|------------------------------------|--------------|-------------------------|--------------|------------------------------------|--------------|
| \$ millions | 2009 | | | | 2008 | | | |
| | Discontinued Operations | | | | Discontinued Operations | | | |
| | Continuing Operations | Middle East | Optimal Pressure Drilling Services | Consolidated | Continuing Operations | Middle East | Optimal Pressure Drilling Services | Consolidated |
| Net earnings (loss) | 2.6 | (0.3) | (0.4) | 1.9 | 0.1 | (2.1) | (0.2) | (2.2) |
| Add (deduct) | | | | | | | | |
| Interest and financing fees | 3.4 | - | 0.1 | 3.5 | 7.0 | - | - | 7.0 |
| Taxes | 1.6 | - | - | 1.6 | 1.3 | 0.3 | - | 1.6 |
| Impairment on assets | - | - | - | - | - | - | - | - |
| Amortization | 2.6 | - | 1.0 | 3.6 | 3.3 | 0.5 | 0.5 | 4.3 |
| (Gain) Loss on sale of property, equipment and investments | (0.2) | 0.3 | | 0.1 | - | (0.3) | - | (0.3) |
| EBITDA | 10.0 | 0.0 | 0.7 | 10.7 | 11.7 | (1.6) | 0.3 | 10.4 |

Discontinued Operations

The activities in the Middle East region, including Tunisia and India, were identified in 2008 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 reported these operations as discontinued as at December 31, 2008.

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 had been classified as assets held for sale.

On April 27, 2009 the Corporation announced that it had entered into a non-binding expression of interest to sell its interest in Optimal Pressure Drilling Services to the Schlumberger Group. The financial results for the three months ended March 31, 2009, and comparative figures, have been adjusted to remove activities related to Optimal Pressure Drilling Services and to report those amounts as a discontinued operation, as the plan to sell this division was internally approved prior to March 31, 2008.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

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

| Three months ended March 31 | | | | | | |
|--|--------------------------|----------------------------|--------------|--------------------------|----------------------------|--------------|
| \$ millions | 2009 | | | 2008 | | |
| | Continuing Operations | Discontinued Operations | Consolidated | Continuing Operations | Discontinued Operations | Consolidated |
| Revenue | 41.8 | 4.8 | 46.6 | 39.4 | 6.8 | 46.2 |
| Expenses | | | | | | |
| Oilfield services | 29.2 | 3.9 | 33.1 | 24.7 | 7.1 | 31.8 |
| General and administration | 2.6 | 0.2 | 2.8 | 3.5 | 1.3 | 4.8 |
| Stock based compensation | 0.1 | - | 0.1 | 0.4 | - | 0.4 |
| Amortization | 2.6 | 1.0 | 3.6 | 3.3 | 1.0 | 4.3 |
| Foreign exchange (gain) loss | (0.1) | - | (0.1) | (0.9) | 0.3 | (1.2) |
| | 34.4 | 5.1 | 39.5 | 31.0 | 9.1 | 40.1 |
| Operating earnings (loss) | 7.4 | (0.3) | 7.1 | 8.4 | (2.3) | 6.1 |
| Interest | 3.3 | 0.1 | 3.4 | 6.3 | - | 6.3 |
| Financing fees | 0.1 | - | 0.1 | 0.7 | - | 0.7 |
| (Gain) Loss on sale of property, equipment and investments | (0.2) | 0.3 | 0.1 | - | (0.3) | (0.3) |
| Impairment of assets | - | - | - | - | - | - |
| Net earnings (loss) before income taxes | 4.2 | (0.7) | 3.5 | 1.4 | (2.0) | (0.6) |
| Income taxes (recovery) | 1.6 | - | 1.6 | 1.3 | 0.3 | 1.6 |
| Net earnings (loss) | 2.6 | (0.7) | 1.9 | 0.1 | (2.3) | (2.2) |

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

Operating Results for the Three Months Ended March 31, 2009 and 2008

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

| \$ millions | Three months ended March 31 | | | | | |
|---------------------------------|-----------------------------|--------------|-------------|--------------|------------|----------|
| | 2009 | % of Revenue | 2008 | % of Revenue | Change | % |
| Revenue | | | | | | |
| Canada | 12.9 | | 21.2 | | (8.3) | (39) |
| International | 28.9 | | 18.2 | | 10.7 | 59 |
| Discontinued Operations | 4.8 | | 6.8 | | (2.0) | (29) |
| Total Revenue | 46.6 | | 46.2 | | 0.4 | 1 |
| Equipment utilization in Canada | 59% | | 73% | | (14%) | (19) |

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 \$12.9 million for the first quarter of 2009 was a decrease of \$8.3 million compared to the first quarter of 2008. The decrease in revenue was the result of declining activity levels, reduced day rates and a significant reduction in activity of one of the Corporation's largest customers.
- The overall wells completed in Western Canada during the first quarter of 2009 decreased by 11% as compared to the first quarter of 2008. Natural gas well completions decreased by 9% from 3,293 in the first quarter of 2008 to 2,994 in the first quarter of 2009. 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. The resulting decrease in activity levels has increased competitiveness within the oilfield services industry and put downward pressure on the day rates the Corporation is able to charge its customers.
- 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 59% for the first quarter of 2009, compared to 73% for the first quarter of 2008. These compare to the CAODC rig utilization averages of 37% and 56% for the first quarter 2009 and 2008, respectively, indicating the Corporation's 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 decreased 15% for the quarter ended March 31, 2009 to 56% as compared to the quarter ended March 31, 2008 utilization of 71%.
- Nitrogen equipment utilization was 68% in the first quarter of 2009; a decrease from the 80% utilization in the first quarter of 2008.
- The Corporation has three 250K UB hydraulic workover units. These units had 6% utilization in the first quarter of 2009. The decline in activity is the result of increasing competition from substitute technologies and new competitors entering the marketplace. Management made the decision during the quarter to not actively market these units on a well to well basis and is pursuing a strategy of getting longer term commitments where economies of scale would be both beneficial to the Corporation and its customers.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

- 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 has been impacted by the drop in activity and the expectation for the remainder of 2009 is for activity levels to remain weak.

International Operations

- The Corporation's activity in Papua New Guinea accounted for \$28.7 million in revenue for the quarter ended March 31, 2009 as compared to \$18.2 million for the quarter ended March 31, 2008.
- Services in Papua New Guinea are provided under longer term contracts rather than the well to well contracts common in Canada. The year 2008 was High Arctic's first full operating year in Papua New Guinea. In the first quarter of 2009, two drilling rigs and one hydraulic workover unit were operating. In the first quarter of 2008 the Corporation operated two drilling rigs. The increase in revenue for the first quarter of 2009 as compared to the first quarter of 2008 is mainly the result of the hydraulic workover unit (Rig 102) which began operating in June of 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. However, management believes that Rig 103 will not be operating after the second quarter of 2009 and will be under a much reduced day rate while stacked. It is undetermined at this point when or if the rig will be called back to active operations.
- 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 management believes the operating of the rig will be suspended for an indefinite period late in the second quarter of 2009.
- 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. On April 27, 2009 the Corporation announced it had signed a non-binding expression of interest to sell its 51% share of Optimal Pressure Drilling Services to the Schlumberger group. The Corporation's 51% share of revenue and earnings (losses) from the joint venture have been reported as discontinued operations as of March 31, 2009. Revenue for the quarter ended March 31, 2009 was \$4.0 million as compared to \$1.5 million for the quarter ended March 31, 2008.
- Revenue from the Middle East region being reported as discontinued operations has decreased by \$4.5 million (85%) to \$0.8 million in the quarter ended March 31, 2009 as compared to \$5.3 million during the same period in 2008. The decrease reflects the shutdown of the operating areas and the Corporation has no significant ongoing operations in the region. The \$0.8 million of revenue in the 1st quarter of 2009 is for demobilization fees for the RAPAD 3 drilling rig which the Corporation has demobilized out of India and is in transit to North America.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

Oilfield Services Expenses and Oilfield Services Operating Margins

Three months ended March 31

| \$ millions | Continuing Operations | | | | Discontinued Operations | | | |
|---|-----------------------|-------------|------------|-------------|-------------------------|------------|--------------|-------------|
| | 2009 | 2008 | Change | % Change | 2009 | 2008 | Change | % Change |
| Revenue | 41.8 | 39.4 | 2.4 | 6 | 4.8 | 6.8 | (2.0) | (29) |
| Oilfield services expense | 29.2 | 24.7 | (4.5) | (18) | 3.9 | 7.1 | 3.2 | 45 |
| % of Revenue | 70% | 63% | (7%) | - | 81% | 104% | 23 | - |
| Oilfield services operating margin | 12.6 | 14.7 | (2.1) | (14) | 0.9 | (0.3) | 1.2 | 400 |
| % of Revenue | 30% | 37% | (7%) | - | 19% | (4%) | 23 | - |

- Oilfield services expense associated with the continuing operations was 70% of continuing revenue in the quarter ended March 31, 2009 and 63% in the same period of 2008. The decrease in activity in Canada, declining day rates in Canada and the growth in activity in Papua New Guinea all contributed to the increase in oilfield services expenses as a percentage of revenue.
- The increase in oilfield services expense as a percentage of revenue is also attributable to higher costs in Papua New Guinea, primarily because of the expense related to the lease of Rigs 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.
- The oilfield services expense associated with the discontinued operation was 81% of discontinued revenue in the quarter ended March 31, 2009 and 104% of discontinued revenue in quarter ended March 31, 2008, 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
Three months ended March 31, 2009

Selected Expense Information

Selected expense information presented below is being reported on a continuing operation and a discontinued operations basis:

| Three months ended March 31, 2008 | | | | |
|---|------------------------------|--------------------------------|---------------------|---------------------|
| \$ millions | Continuing Operations | Discontinued Operations | Consolidated | % of Revenue |
| Revenue | 39.4 | 6.8 | 46.2 | |
| General and administrative⁽¹⁾ | 3.5 | 1.3 | 4.8 | 10 |
| Share-based compensation⁽²⁾ | 0.4 | - | 0.4 | 1 |
| Amortization⁽³⁾ | 3.3 | 1.0 | 4.3 | 9 |
| Foreign exchange (gain) loss⁽⁴⁾ | (0.9) | (0.3) | (1.2) | (3) |
| Interest expense⁽⁵⁾ | 6.3 | - | 6.3 | 14 |
| Financing cost⁽⁶⁾ | 0.7 | - | 0.7 | 2 |
| (Gain) / loss on sale of property, equipment and investments⁽⁷⁾ | - | (0.3) | (0.3) | (1) |
| Income taxes (recovery)⁽⁸⁾ | 1.3 | 0.3 | 1.6 | 4 |

| Three months ended March 31, 2009 | | | | |
|---|------------------------------|--------------------------------|---------------------|---------------------|
| \$ millions | Continuing Operations | Discontinued Operations | Consolidated | % of Revenue |
| Revenue | 41.8 | 4.8 | 46.6 | |
| General and administrative⁽¹⁾ | 2.6 | 0.2 | 2.8 | 6 |
| Share-based compensation⁽²⁾ | 0.1 | - | 0.1 | - |
| Amortization⁽³⁾ | 2.6 | 1.0 | 3.6 | 8 |
| Foreign exchange (gain) loss⁽⁴⁾ | (0.1) | - | (0.1) | - |
| Interest expense⁽⁵⁾ | 3.3 | 0.1 | 3.4 | 7 |
| Financing cost⁽⁶⁾ | 0.1 | - | 0.1 | - |
| (Gain) / loss on sale of property, equipment and investments⁽⁷⁾ | (0.2) | 0.3 | 0.1 | - |
| Income taxes (recovery)⁽⁸⁾ | 1.6 | - | 1.6 | 3 |

(1) General and Administrative

General and administration costs as a percentage of revenue was 6% for the quarter ended March 31, 2009, down from 10% in the same period of 2008. General and administrative expenses decreased in dollar terms by \$2.0 million to \$2.8 million for the quarter ended March, 31, 2009 compared to \$4.8 million for the quarter ended March 31, 2008. Some specific differences are outlined below.

- General and administrative expenses in the Middle East, which are reported as discontinued operations, decreased \$1.1 million to \$0.1 million in the first quarter of 2009 as compared to costs of \$1.2 million in the same period of 2008. This is a result of the cost savings as operations in the area are winding down.
- General and administrative expenses in the continuing operations have decreased \$0.9 million (26%) to \$2.6 million in the 1st quarter of 2009 as compared to \$3.5 million in the 1st quarter of 2008. Management took steps in early 2009 to reduce general and administrative costs by reducing personnel headcounts and

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

implementing wage and benefit reductions. These actions reduced salary and employee related cost by \$0.4 million in the quarter ended March 31, 2009 as compared to the same period of 2008. Cost reduction initiatives for items such as outside services, insurance premiums and in other areas reduced general administrative costs by \$0.4 million in the quarter ended March 31, 2009.

(2) Share-based Compensation

The Corporation recognized share-based compensation expense of \$0.1 million for the quarter ended March 31, 2009 (2008 - \$0.4 million) based on amortizing the expense over the vesting period using the Black-Scholes model (see Note 7 in Financial Statements). During the three months ended March 31, 2009 a total of 150,000 options were cancelled voluntarily by the holders and there were 34,150 forfeitures, all of which were "out-of-the-money". A total share based compensation expense of \$0.1 million was recognized in relation to these cancelled options.

On January 14, 2009, the Corporation announced it had cancelled its stock appreciation rights plan and in its place issued grants for 2,903,600 stock options to directors, officers and employees of the Corporation. A further 156,500 stock options were granted in the 1st quarter of 2009.

(3) Amortization

Amortization for the quarter ended March 31, 2009 was \$3.6 million, compared to \$4.3 million for the quarter ended March 31, 2008. The decrease reflects the reclassification in 2007 and 2008 of certain property and equipment to Assets Held for Sale that are not depreciated and the impairment charges taken in 2007 and 2008 described below under "Impairment of Assets Held for Sale and Property and Equipment".

(4) 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 \$0.1 million in the quarter ended March 31, 2009 as compared to a gain of \$1.2 million in the same quarter of 2008.

(5) Interest Expense

The following table provides details of interest expense:

| \$ millions | Three months ended March 31 | | |
|---|-----------------------------|------------|--------------|
| | 2009 | 2008 | Change |
| Interest expense on Senior Debt | 1.4 | 2.9 | (1.5) |
| Interest expense on Convertible Debentures | 0.7 | 0.8 | (0.1) |
| Interest expense on other debt | 0.1 | 0.1 | - |
| Amortization of financing fees | 0.6 | 2.0 | (1.4) |
| Convertible debenture accretion expense | 0.5 | 0.5 | - |
| Total | 3.3 | 6.3 | (3.0) |

The principal amount of the senior debt (credit facility and bridge loan) was \$92.0 million at March 31, 2009, compared to \$126.1 million at March 31, 2008. The interest rate applicable to all prime loans under the revolving credit facility is based on prime. The interest expense has decreased with the decrease in the prime rate and the decrease in the principal amount.

At December 1, 2008 the interest rate on the Convertible Debentures decreased from 12% to 10% as a result of the Corporation reducing its overall Consolidated Leverage Ratio to below 5.00 to 1.00.

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. As at March 31, 2009 all these fees had been fully amortized.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 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.

(6) Financing Costs

Financing costs during the first quarter of 2009 are primarily related to legal costs and other expenses associated with the Corporation's existing credit facility. Financing costs in the first quarter of 2008 included the pursuit of alternative sources of equity and debt financing arrangements that were not consummated as the proposed terms were not acceptable.

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

The Corporation continues to sell excess and underutilized assets. The gain of \$0.3 million in the first quarter of 2008 is the result of receiving proceeds in excess of the net book value of asset sold.

(8) Income Taxes (Recovery)

The income tax expense for the quarter ended March 31, 2009 of \$1.6 million relates to current taxes payable in Papua New Guinea, as does the tax expense of \$1.6 million in the quarter ended March 31, 2008. 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 difference between amounts recorded in the financial statements and their respective tax bases, using a 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.

Impairment of Assets Held for Sale and Property and Equipment

During 2007 and 2008 management assessed the Property and Equipment balances to determine if there were 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 determined the fair value of the assets by use of internal experts for both local and international operations. Based on this analysis, management 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 was \$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.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

Quarterly Financial Review

Selected Quarterly Consolidated Financial Information (Three Months Ended)

| \$million except per share amounts | Mar 31, 2009 | Dec 31, 2008 | Sep 30, 2008 | Jun 30, 2008 | Mar 31, 2008 | Dec 31, 2007 | Sep 30, 2007 | Jun 30, 2007 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue - continuing operations | 41.8 | 40.7 | 36.8 | 28.2 | 39.4 | 34.4 | 23.7 | 10.7 |
| - discontinued operations | 4.8 | 4.3 | 5.0 | 7.3 | 6.8 | 4.9 | 5.3 | 6.9 |
| - total | 46.6 | 45.0 | 41.8 | 35.5 | 46.2 | 39.3 | 29.0 | 17.6 |
| Net earning (loss) – before discontinued operations | 2.6 | (21.4) | (0.3) | (6.9) | 0.1 | (22.9) | (10.9) | (0.9) |
| Per share (basic and diluted) | \$0.06 | \$(0.50) | \$(0.01) | \$(0.16) | \$0.00 | \$(0.54) | \$(0.25) | \$(0.02) |
| Net earning (loss) – discontinued operations | (0.7) | (3.5) | (2.9) | (2.4) | (2.3) | (32.3) | (2.5) | (5.1) |
| Per share (basic and diluted) | \$(0.02) | \$(0.08) | \$(0.07) | \$(0.06) | \$(0.05) | \$(0.76) | \$(0.06) | \$(0.13) |
| Net earning (loss) | 1.9 | (24.9) | (3.2) | (9.3) | (2.2) | (55.2) | (13.4) | (6.0) |
| Per share (basic and diluted) | \$0.04 | \$(0.58) | \$(0.08) | \$(0.22) | \$(0.05) | \$(1.30) | \$(0.31) | \$(0.15) |

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

Liquidity and Capital Resources

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

| | March 31 | December 31 | Change |
|---|----------|-------------|--------|
| | 2009 | 2008 | |
| \$ millions except financial ratios | | | |
| Current assets | 74.0 | 58.0 | 16.0 |
| Current liabilities less credit facility ⁽¹⁾ | 49.3 | 37.5 | (11.8) |
| Operating working capital ⁽²⁾ | 24.7 | 20.5 | 4.2 |
| Operating working capital ratio ⁽³⁾ | 1.50 | 1.55 | (0.05) |
| Senior credit facility | 92.0 | 93.9 | (1.9) |
| Subordinated convertible debentures | 27.9 | 27.9 | - |
| Shareholders' equity | 12.3 | 9.7 | 2.6 |
| Total debt-to-capitalization ratio ⁽⁴⁾ | 0.91 | 0.93 | (0.02) |
| Cash and cash equivalents | 26.7 | 18.9 | 7.8 |

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 instill 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"), a \$100-million equipment-based revolving loan ("Facility B") and a \$20-million multi-draw bridge loan facility (the "Bridge Loan"). As at March 31, 2009, the Corporation owed approximately \$4.1 million on Facility A (December 31, 2008 – \$4.2 million), \$67.9 million on Facility B (December 31, 2008 – \$69.7 million) and \$20.0 million (December 31, 2008 - \$20.0 million) on the Bridge Loan (the aggregate amounts owing on Facility A, Facility B and the Bridge Loan are herein referred to as the "Senior Consolidated Debt"). Accordingly, the Senior Consolidated Debt was approximately \$92.0 million at March 31, 2009 (December 31, 2008 - \$93.9 million), excluding debt issue costs that were offset against that amount, as reported on the balance sheet. The interest rate applicable to all prime loans under the revolving credit facility is prime plus 2% for amounts drawn up to 2.75x consolidated earnings before interest, depreciation, amortization and taxes and prime plus 4% for the excess drawn over the 2.75x amount. The interest rate applicable to the Bridge Loan is prime plus 6.25%.

As at March 31, 2009, the Corporation had unpaid fees of \$3.8 million related to amendments to the Senior Consolidated Debt made in 2007 and 2008. An amount of \$2.0 million was paid on May 1, 2009 and the balance is

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

due on June 12, 2009. As at March 31, 2009, the liability for the unpaid cash fees of \$3.8 million has been fully accrued. The fees incurred to March 31, 2009 have been fully amortized using the effective interest rate method over the period to March 31, 2009. A total of \$0.5 million of the fees were expensed as interest in the three months ended March 31, 2009 (2008 - \$1.4 million).

As a result of an extension signed on April 30, 2009, the maturity date of the credit facility has been extended to June 12, 2009. The Corporation does not have the capacity to repay the debt at that time but expects to be successful in negotiating a further extension on terms to be determined. 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 maturity date for repayment of its outstanding debt.

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 March 31, 2009 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 pursued as one possible solution, including the sale of Optimal Pressure Drilling Services which the Corporation hopes to complete by May 31, 2009. Current market conditions make the timing of further sales of equipment 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 \$26.7 million as at March 31, 2009 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. Ongoing business needs and the near term cash needs include approximately \$11.1 million required to pay income taxes primarily relating to Papua New Guinea, most of which is expected to be payable over the next 120 days.

The Corporation generated positive cash flow from operations during the first quarter of 2009 as described below. Industry conditions in 2009 have deteriorated and will adversely impact operating cash flows. The Corporation's accounts payable and accounts receivable are 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 5 in Financial Statements*). The Corporation does not expect to have the capacity to repay the Senior Consolidated Debt on its June 12, 2009 maturity date and expects that extensions of the maturity date will be required.

On June 6, 2008, the revolving term period of Facility A and Facility B was extended to March 31, 2009. By an amendment dated April 30, 2009 and effective March 31, 2009, the following changes were made to the terms and conditions of the senior credit facilities:

- the maturity date of the revolving credit facility and the Bridge Loan was extended to June 12, 2009 (the "Maturity Date") and the full principal amount and any outstanding fees are now due at that time;

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

- the financial covenants and mandatory asset sale requirements have been waived to the Maturity Date; and
- the Corporation is not permitted any further draws under the revolving credit facility.

The Corporation hopes to negotiate an extension of the revolving credit facility and the Bridge Loan beyond the Maturity Date. The outcome of the negotiations, including any new terms and conditions, cannot be predicted at this time.

Maintaining a minimum Consolidated Leverage Ratio ("CLR") is one of the key financial ratio covenants under the revolving credit facility. The 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 March 31, 2009, the Corporation had a CLR of approximately 3.15 to 1.0 compared to the required minimum of 2.75 to 1.0. The CLR breach was subsequently waived for March 31, 2009 and through to the Maturity Date. New CLR minimums will likely be included in any extension of the Maturity Date.

Cash Flow

Cash – Operating Activities – Continuing Operations

For the quarter ended March 31, 2009, cash provided by operating activities was \$6.5 million before reflecting working capital adjustments, compared to cash provided by operating activities of \$6.2 million in the quarter ended March 31, 2008. After consideration of working capital adjustments, cash provided by operating activities in the quarter ended March 31, 2009 was \$6.8 million, compared to cash provided by operating activities of \$15.4 million in the quarter ended March 31, 2008. In 2008, the Corporation had a beneficial change of \$9.2 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 in Papua New Guinea not being immediately due. In the quarter ended March 31, 2009, the Corporation's accounts receivable balances increased \$9.9 million, which was offset by an increase of \$10.6 million in accounts payable, accrued liabilities and income taxes payable. The increase in accounts receivable and in accounts payable is mainly related to rig lease receivables and rig lease payables associated with the lease of two rigs in Papua New Guinea. The counterparties are related to each other so the lease payments are not required to be paid until the receivable is collected.

Investing Activities – Continuing Operations

For the quarter ended March 31, 2009, net expenditures to acquire rigs, equipment and other operational assets were \$0.7 million, compared to \$2.9 million for the quarter ended March 31, 2008 (both amounts after the change in accounts payable related to constructing rigs and equipment). The acquisitions in 2008 related primarily to equipment acquired for the contracts in Papua New Guinea.

During the quarter ended March 31, 2009 the Corporation received proceeds from the sale of assets of \$0.7 million, compared to \$0.6 million (\$0.3 million being from discontinued operations) for the quarter ended March 31, 2008.

Financing Activities – Continuing Operations

For the quarter ended March 31, 2008, the Corporation repaid its credit facility by \$1.9 million. The Corporation also raised \$0.6 million through a private placement with senior officers and directors of 3,000,000 common shares of the Corporation.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

Cash Flows from Discontinued Operations

For the quarter ended March 31, 2009, cash provided by operating activities was \$1.4 million, compared to cash used by operating activities of \$2.7 million in the quarter ended March 31, 2008 during which Optimal Pressure Drilling Services was in a start-up phase.

Customer Concentration

The Corporation's account receivables are predominantly with customers who explore for and develop petroleum reserves and are subject to normal industry credit risks. The Corporation assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding. The Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has over 400 customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation has one significant customer. Services are provided to this customer in Papua New Guinea. That customer represents approximately 68.6% of the Corporation's revenue for the three months ended March 31, 2009 and 75.8% of its accounts receivable at that date. Management has assessed this customer as creditworthy and the Corporation has had no history of collection issues with the customer.

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 was taken in 2007 and a further write-down of \$2.7 million taken in 2008. The write-downs were applied to both the Canadian business, which is ongoing, and the discontinued operations (*see Note 14 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.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

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 March 31, as at March 31, 2009:

| \$ millions | As at March 31 | | | | | |
|--|----------------|-------------|------------|------------|------|-----------|
| | Total | 2009 | 2010 | 2011 | 2012 | Post 2012 |
| Long-term debt obligations ⁽¹⁾ | \$ 92.0 | \$ 92.0 | \$ - | \$ - | \$ - | \$ - |
| Convertible debentures | 27.9 | - | - | - | 27.9 | - |
| Operating lease obligations | 0.3 | 0.3 | - | - | - | - |
| Related party operating lease obligations ⁽²⁾ | 1.0 | 0.7 | 0.2 | 0.1 | - | - |
| Total obligations | 121.2 | 93.0 | 0.2 | 0.1 | 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 June 12, 2009. Refer to Note 4 of the Consolidated Financial Statements for the period ended March 31, 2009. The Corporation anticipates that the repayment terms may be extended.

(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;

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

- 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 maturity date of the revolving credit facility is June 12, 2009 and, unless the term is extended, the outstanding indebtedness must then be repaid. The Bridge Loan also matures on June 12, 2009 and must be repaid in full on that date along with any outstanding amendment fee. There is no guarantee that the Corporation will be able to secure the necessary amendments to its credit facilities 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.

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 \$0.2 million change in interest expense for the quarter based on the outstanding balances as at March 31, 2009.

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, 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.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

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 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.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

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 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.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

Related Party Transactions

In the normal course of business, during the three months ended March 31, 2009, the Corporation incurred general and administration expenses related to premises rent of \$0.3 million (2008 - \$0.3 million) and equipment and vehicle leases payments of \$0.1 million (2008 - \$0.2 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.

These transactions 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 on a subordinated basis to the revolving credit facility and Bridge Loan (*see Note 4 in Financial Statements*). Interest expense for the three months ended March 31, 2009 includes \$ 0.1 million pertaining to this loan (2008 – \$0.1 million).

A further amount of \$4.3 million (2008 - \$ 3.2 million) is owed to the Former CEO, and companies controlled by him, as at March 31, 2009 on account of various transactions. The amounts are unsecured, repayable on demand (but generally subordinated to the revolving credit facility and Bridge Loan) and non-interest bearing. For the three months ending, 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 14 in Financial Statements*) engaged the services of a director and incurred fees during the three months ended March 31, 2009 of approximately \$46,000 that are recorded in Optimal Pressure Drilling Services (2008 – \$51,000).

New Accounting Standards

As disclosed in the December 31, 2008 financial statements, the company adopted the following sections from the Canadian Institute of Chartered Accountants ("CICA") handbook:

- 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 adoption of this standard has had no material impact on the Financial Statements.
- Credit risk and fair value of financial assets and liabilities Emerging Issues Committee abstract 173 is effective on January 1, 2009 and requires entities to take both counterparty and their own credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. The fair values of the Company's assets and liabilities could be lower than carrying value due to the going concern issues discussed in Note 1 of the Financial Statements.

Future Accounting Changes

In February 2008 the Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use International Financial Accounting Standards (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 impact of IFRS for 2011, and comparative numbers for 2010, and has prepared a plan to address the adoption process. The impact of adopting IFRS on the company's financial results cannot be reasonably determined at this time.

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 Section 1582 and, collectively, 1601 and 1602, provides the Canadian equivalent to IAS 3 "Business Combinations" and International Accounting Standard IAS 27 "Consolidated and Separate Financial

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

Statements” respectively. The impact of adopting these new standards has not yet been assessed and cannot reasonably be estimated at this time.

Comparative Figures

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

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.

Internal Controls Over Financial Reporting

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 quarter ended March 31, 2009 that has materially affected, or is reasonably likely to affect, the Corporation’s internal control 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.

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, the Corporation announced on April 27, 2009 it had signed a non-binding expression of interest to sell its 51% share of Optimal Pressure Drilling Services to the Schlumberger group. The Corporation’s 51% share of revenue and earnings (losses) from the joint venture have been reported as discontinued operations as of March 31, 2009 and has been scoped out of the ICFR testing and reporting. For the quarter ended March 31, 2009 the discontinued operations in the Middle East and Optimal Pressure Drilling Services accounted for \$4.8 million in revenue, and \$0.9 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.

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

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 to the 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.

While the Corporation is continually improving its ICFR, no material changes were made during the quarter ended March 31, 2009 that would materially affect or are reasonably likely to materially affect the Corporation's ICFR.

International Financial Reporting Standards Update

The Canadian Accounting Standards Board has confirmed that use of International Financial Reporting Standards (IFRS) will be required for years beginning on or after January 1, 2011 for profit-oriented publicly accountable entities. Therefore, the Corporation must be in a position to report its results and comparatives in accordance with IFRS beginning January 1, 2011.

The Corporation has established a project plan to convert to IFRS. The project plan consists of three phases: diagnose the impact of conversion, develop the implementation plan, and implementation. With the assistance of external consultants, the Corporation has completed the diagnosis phase, which included estimating the financial and systems impact and defining requirements for financial information.

The Corporation expects to complete the detailed implementation plan by August 31, 2009. The detailed implementation plan will require a comprehensive analysis of the impact of the IFRS differences identified in the initial diagnostic phase.

During the implementation phase, the Corporation will execute the required changes to business processes, financial systems, accounting policies, and internal controls over financial reporting. At this time, the impact on financial statements is not reasonably determinable.

Outlook

The impact of the 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 and their future expectations and impacted their ability to access debt and equity financing. The Corporation therefore expects to see continued softness in demand for our services for the balance of 2009. The Corporation anticipates the reduction in demand for our services to increase industry competitiveness and put further downward pressure on equipment utilization and pricing in the Canadian market. During the first quarter of 2009, the Corporation saw a significant reduction in Canadian revenue and there is no expectation of turnaround in the immediate future. 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 was well 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

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

20,729 well completions reported by the CAODC for 2008. Activity in the 3rd 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. However, Rig 103 has been given notice that it will discontinue operations and be “stacked” beginning late in the 2nd quarter of 2009. It is undetermined when Rig 103 will resume drilling operations, but management expectations are that it may not be until 2010. High Arctic has a contract to manage and operate Rig 104, which began drilling in December 2008. The contract for Rig 104 is for a two year term that commenced on spud of its first well. At the present time, management believes that Rig 104 will maintain operations. Rig 102, a hydraulic workover rig, has been operating since June 2008 under a well to well contract. The current projection for Rig 102 is to shutdown late in the 2nd quarter of 2009. Our customer’s capital spending plans in Papua New Guinea will depend in part on oil prices and the success of the current drilling programs.

The Corporation announced it had signed a non-binding expression of interest to sell its 51% share of Optimal Pressure Drilling Services to the Schlumberger group. If the sale is completed for an estimated \$21.8 million USD, the funds will be used to further reduce debt.

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 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.

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:

- 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

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

- 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 customer 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;
- 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;

High Arctic Energy Services Inc.
(Formerly High Arctic Energy Services Trust)
Management Discussion and Analysis
Three months ended March 31, 2009

- 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 April 27, 2009 the Corporation announced that it has signed a non-binding expression of interest to sell its interests in Optimal Pressure Drilling Services to the Schlumberger group. The proposed purchase price is US\$21.8 million and the parties have targeted May 31, 2009 as an anticipated closing. The Corporation's remaining cash call commitment of US\$4.7 million would also be extinguished as part of the sale.

On April 30, 2009 the corporation announced that it had received an extension of the maturity date for the senior credit facilities to June 12, 2009. As part of the extension, the covenants related to asset sales and financial covenants have been waived through to June 12, 2009.

Additional Information

Additional information on the Corporation, including the Information Circular dated April 6, 2009 and the Annual Information Form for the year ended December 31, 2008, can be found on SEDAR at www.sedar.com.