

High Arctic Energy Services Inc.
Consolidated Statements of Financial Position
As at June 30, 2012 and December 31, 2011
(Canadian \$ Million - Unaudited)

	Notes	June 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		27.6	16.5
Accounts receivable	4	16.1	19.2
Inventories		3.7	3.4
Prepaid expenses		0.6	0.7
Income tax receivable		2.4	1.0
		<u>50.4</u>	<u>40.8</u>
Non-current assets			
Loans receivable	10	0.6	0.8
Property and equipment	5	54.2	51.9
Deferred tax asset	18	5.0	-
		<u>60.8</u>	<u>53.7</u>
Total assets		<u>110.2</u>	<u>93.5</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	6	13.9	11.6
Income taxes payable		-	0.1
Current portion of long-term debt	7	4.8	4.8
		<u>18.7</u>	<u>16.5</u>
Non-current liabilities			
Long-term debt	7	10.0	12.4
Deferred income taxes payable		1.0	1.0
		<u>11.0</u>	<u>13.4</u>
Total liabilities		<u>29.7</u>	<u>29.9</u>
Shareholders' equity		<u>80.5</u>	<u>63.6</u>
Total liabilities and equity		<u>110.2</u>	<u>93.5</u>

Commitments and contingencies 12, 15

See accompanying notes to these consolidated Interim Financial Statements.

Approved on behalf of the Corporation by:

(signed) "Michael Binnion" Director

(signed) "Christopher Warren" Director

High Arctic Energy Services Inc.
Consolidated Statements of Income(Loss)
For the three and six months ended June 30, 2012 and 2011
(Canadian \$ Million, except per share amounts - Unaudited)

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2012	2011	2012	2011
Revenue	17	29.6	24.9	71.8	60.8
Expenses					
Oilfield services		22.2	19.0	47.9	42.4
General and administration		2.2	2.0	4.4	4.0
Share-based compensation	9	0.4	0.4	0.8	1.9
Amortization	5	2.3	2.2	4.6	4.0
Gain on sale of investment	11	-	-	-	(2.0)
Foreign exchange loss		0.2	0.1	0.1	0.1
		27.3	23.7	57.8	50.4
Operating earnings for the period		2.3	1.2	14.0	10.4
Interest and finance expense		0.4	0.3	0.6	1.2
Net earnings before income taxes		1.9	0.9	13.4	9.2
Current income tax expense		1.2	1.0	2.0	2.0
Deferred income tax (recovery)	18	(5.0)	-	(5.0)	-
Net earnings (loss) for the period		5.7	(0.1)	16.4	7.2
Earnings per share:	8				
Basic		0.12	0.00	0.36	0.16
Diluted		0.12	0.00	0.35	0.15

See accompanying notes to these consolidated Interim Financial Statements.

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2012	2011	2012	2011
Net earnings (loss) for the period		5.7	(0.1)	16.4	7.2
Other comprehensive income					
Foreign currency translation losses for foreign operations		1.1	(0.5)	0.2	(1.3)
Total comprehensive income for the period		6.8	(0.6)	16.6	5.9

See accompanying notes to these consolidated Interim Financial Statements.

High Arctic Energy Services Inc.
Consolidated Statements of Changes in Equity
For the periods ended June 30, 2012 and 2011
(Canadian \$ Million - Unaudited)

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained (deficit)	Total equity (deficiency)
Balance at December 31, 2011		167.9	6.6	(1.3)	(109.6)	63.6
Net earnings for the period		-	-	-	16.4	16.4
Dividends paid	8	-	-	-	(0.5)	(0.5)
Other comprehensive income - foreign currency translation differences		-	-	0.2	-	0.2
Normal course issuer bid		(0.3)	0.2	-	-	(0.1)
Share-based payment transactions	9	0.8	0.1	-	-	0.9
Balance at June 30, 2012		168.4	6.9	(1.1)	(93.7)	80.5

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained (deficit)	Total equity (deficiency)
Balance at December 31, 2010		165.4	6.3	(2.3)	(127.6)	41.8
Net Earnings for the period		-	-	-	7.2	7.2
Other comprehensive income - foreign currency translation differences		-	-	(1.3)	-	(1.3)
Share-based payment transactions	9	1.8	0.1	-	-	1.9
Balance at June 30, 2011		167.2	6.4	(3.6)	(120.4)	49.6

See accompanying notes to these consolidated Interim Financial Statements.

High Arctic Energy Services Inc.
Consolidated Statements of Cash Flow
For the three and six months ended June 30, 2012 and 2011
(Canadian \$ Million - Unaudited)

		Three Months Ended June 30		Six Months Ended June 30	
	Notes	2012	2011	2012	2011
Operating activities					
Net earnings for the period		5.7	(0.1)	16.4	7.2
Adjustments for:					
Amortization	5	2.3	2.2	4.6	4.0
Deferred income tax recovery	18	(5.0)	-	(5.0)	-
Deferred income tax liability		-	0.2	-	-
Share-based compensation	9	0.4	0.4	0.8	1.9
		3.4	2.7	16.8	13.1
Net changes in items of working capital	16	8.1	4.3	3.8	3.9
Net cash generated from operating activities		11.5	7.0	20.6	17.0
Investing activities					
Property and equipment		(5.3)	(5.8)	(6.9)	(9.0)
Reimbursable cost recovery for equipment		-	-	-	1.5
Net cash generated used in investing activities		(5.3)	(5.8)	(6.9)	(7.5)
Financing activities					
Dividend payments	8	(0.5)	-	(0.5)	-
Issuance of common shares	8	0.2	-	0.2	-
Purchase of common shares for cancelation	8	(0.1)	-	(0.1)	-
Loan receivable		0.2	(0.8)	0.2	(0.8)
Advance of long-term debt		-	20.0	-	20.0
Repayment of long-term debt	7	(1.3)	-	(2.5)	-
Debt transaction costs	7	-	(0.4)	-	(0.4)
Repayment of credit facility	7	-	(23.7)	-	(36.5)
Net cash used in financing activities		(1.5)	(4.9)	(2.7)	(17.7)
Net change in cash		4.7	(3.7)	11.0	(8.2)
Effect of exchange rate changes		0.4	(0.3)	0.1	(0.7)
Net change in cash and cash equivalents		5.1	(4.0)	11.1	(8.9)
Cash and cash equivalents – Beginning of period		22.5	19.4	16.5	24.3
Cash and cash equivalents – End of period		27.6	15.4	27.6	15.4

High Arctic Energy Services Inc.

Consolidated Financial Statements

For the six months ended June 30, 2012 and 2011

(Canadian \$ Million - Unaudited)

1 General Information

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

2 Basis of Preparation and Adoption of IFRS

These Interim Financial Statements have been prepared in accordance with International Financial Reporting standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of Interim Financial Statements, including IAS 34. The accounting policies used in these interim financial statements are consistent with those used in the December 31, 2011 consolidated financial statements prepared in accordance with IFRS as issued by IASB.

The policies applied in these condensed Interim Financial Statements are based on IFRS issued and outstanding as of August 10, 2012, the date the Board of Directors approved the statements.

The Interim Financial Statements do not include all the information and disclosures required in the consolidated annual financial statements, and should be read in conjunction with the Corporation's consolidated annual financial statements as at December 31, 2011 which have been prepared in accordance with IFRS and with the consolidated interim financial statements for the six months ended June 30, 2011.

These Interim Financial Statements are presented in Canadian dollars.

The consolidated interim financial statements ("Interim Financial Statements") of High Arctic Energy Services Inc. ("High Arctic" or the "Corporation") for the period ended June 30, 2012 were authorized by the Board of Directors on August 10, 2012.

3 Key Sources of Estimation Uncertainty

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

Allowance for doubtful accounts

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

Amortization

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

High Arctic Energy Services Inc.
Consolidated Financial Statements
For the six months ended June 30, 2012 and 2011
(Canadian \$ Million - Unaudited)

Income taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. The Corporation's calculation of income taxes involves many complex factors as well as the Corporation's interpretation of relevant tax legislation and regulations.

Share-based compensation

The fair value of stock options is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions, related to the risk-free interest rate, average expected option life, estimated forfeitures and estimated volatility of the Corporation's shares. The fair value of the shares issued under the Executive and Directors Share Incentive Plan is recognized based on the trading value of the Corporation's shares, the vesting period of the plan and the estimated forfeitures.

4 Accounts Receivable

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

	June 30, 2012	December 31, 2011
Less than 31 days	13.2	12.5
31 to 60 days	2.2	5.9
61 to 90 days	0.3	1.1
Greater than 90 days	0.9	0.2
Allowances for doubtful accounts	(0.5)	(0.5)
Total	16.1	19.2

The Corporation's accounts receivables are denominated in the following currencies:

	June 30, 2012	December 31, 2011
Canadian dollar	2.7	11.4
United States dollar	13.4	7.8
Total	16.1	19.2

5 Property and Equipment

The following table reconciles the changes in property and equipment during the period.

Cost	Light vehicles	Heavy trucks	Computer software	Oil Field Equipment	Leasehold improvements	Computer hardware and office equipment	Work-in-progress	Total
Balance December 31, 2011	2.6	19.5	1.1	102.8	0.6	1.0	1.0	128.6
Additions	0.2	-	-	2.0	-	0.1	4.6	6.9
Disposals	(0.1)	-	-	-	-	-	-	(0.1)
Effect of foreign currency exchange	-	-	-	0.1	-	-	-	0.1
Balance June 30, 2012	2.7	19.5	1.1	104.9	0.6	1.1	5.6	135.5

Accumulated amortization and impairments	Light vehicles	Heavy trucks	Computer software	Oil Field Equipment	Leasehold improvements	Computer hardware and office equipment	Work-in-progress	Total
Balance December 31, 2011	1.0	14.5	1.0	59.3	0.2	0.7	-	76.7
Amortization for the period	0.2	0.4	0.1	3.8	-	0.1	-	4.6
Disposals	-	-	-	-	-	-	-	-
Effect of foreign currency exchange	-	-	-	-	-	-	-	-
Balance June 30, 2012	1.2	14.9	1.1	63.1	0.2	0.8	0.0	81.3

Carrying amounts								
At December 31, 2011	1.6	5.0	0.1	43.5	0.4	0.3	1.0	51.9
At June 30, 2012	1.5	4.6	0.0	41.8	0.4	0.3	5.6	54.2

High Arctic Energy Services Inc.
Consolidated Financial Statements
For the six months ended June 30, 2012 and 2011
(Canadian \$ Million - Unaudited)

6 Accounts Payable and Accrued Liabilities

	June 30, 2012	December 31, 2011
Accounts payable	7.7	6.4
Accrued liabilities	2.4	3.5
Accrued payroll	3.8	1.7
Total	13.9	11.6

7 Long-Term Debt

The Corporation's credit facilities consist of a capital loan with an initial balance of \$20 million and a four year amortization, a \$5.0 million two year committed revolving evergreen loan and a \$5.0 million demand revolving operating loan. The credit facilities are secured by all the assets of the Canadian parent and by guarantees of its foreign subsidiaries.

The capital loan is subject to quarterly principal payments of \$1.25 million. The capital loan carries an annual interest rate of the bank's prime interest rate plus 1.75% and has a maturity date of August 31, 2013. The effective interest rate on the capital loan was 5% for the period from January 1, 2012 to June 30, 2012.

The \$5.0 million revolving evergreen loan can be used for the acquisition of equipment to be purchased and held in Canada. The evergreen loan requires monthly principal payments equal to 1/48th of each advance drawn on the facility commencing in the month following the month the advance is drawn. The interest rate for this facility is the bank's prime interest rate plus 1.25%. As at June 30, 2012, the Corporation has not drawn against the evergreen loan. The maturity date is August 31, 2013.

The \$5.0 million demand revolving operating loan facility may be drawn to a maximum of 75% of the eligible Canadian accounts receivable, less certain priority claims, and 90% of the eligible foreign accounts receivable insured by a lender approved insurer. The annual interest rate for this facility is the bank's prime interest rate plus 1.25%. As at June 30, 2012, the Corporation has not drawn against the revolving operating loan.

	June 30, 2012	December 31, 2011
Principal amount of capital loan	15.0	17.5
Less: debt transaction costs	(0.2)	(0.3)
	14.8	17.2
Less: current portion of long-term debt	4.8	4.8
Long term debt balance, end of period	10.0	12.4

High Arctic Energy Services Inc.
Consolidated Financial Statements
For the six months ended June 30, 2012 and 2011
(Canadian \$ Million - Unaudited)

8 Share Capital and Other Components of Equity

(a) Authorized Share Capital

An unlimited number of common shares and an unlimited number of preferred shares may be issued. No preferred shares have been issued to date.

(b) Changes in Issued Shares

	June 30, 2012		December 31, 2011	
	Shares	\$	Shares	\$
Opening balance	46,080,262	166.1	43,083,752	163.6
Issuance of shares	237,040	0.3	76,510	0.1
Normal course issuer bid	(79,336)	(0.3)	-	-
Vested restricted shares (note 9)	-	-	2,920,000	2.4
Common shares outstanding	46,237,966	166.1	46,080,262	166.1
Restricted shares outstanding (note 9)	3,540,000	2.3	3,540,000	1.8
Total common and restricted shares outstanding	49,777,966	168.4	49,620,262	167.9

Share Consolidation

On June 15, 2011, the Corporation completed a consolidation of its common shares on the basis of one (1) new post-consolidation common share for every five (5) pre-consolidation common shares. The 252,183,147 common shares outstanding on that date were consolidated into 50,436,637 shares. In the financial statements, the share consolidation was applied retroactively such that the number of common and restricted shares and stock options issued prior to that time have been restated and the outstanding balances and per share information presented accordingly.

Issuance of Shares

For the six months ended June 30, 2012, a total of 237,040 stock options were exercised for shares of the Corporation (see Note 9). For the year ended December 31, 2011, a total of 76,510 stock options were exercised for shares of the Corporation.

Normal Course Issuer Bid

On March 21, 2012, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 5 percent of the Corporation's issued and outstanding common shares under a Normal Course Issuer Bid (the "Bid"). The Corporation may purchase up to 2,418,013 common shares for cancellation subject to a daily purchase limit of 6,248 common shares. The Bid commenced on March 23, 2012 and will terminate on March 22, 2013 or such earlier time as the Bid is completed or terminated at the option of the Corporation. As at June 30, 2012, 79,336 common shares have been purchased and cancelled pursuant to the Bid.

High Arctic Energy Services Inc.
Consolidated Financial Statements
For the six months ended June 30, 2012 and 2011
(Canadian \$ Million - Unaudited)

(c) Contributed Surplus

	Six Months Ended June 30, 2012	Year ended December 31, 2011
Opening balance	6.6	6.3
Normal course issuer bid	0.2	
Share-based compensation (Note 9)	0.1	0.3
Closing balance	6.9	6.6

(d) Per Share Amounts

The following table summarizes the weighted average number of common shares used in calculating basic and diluted earnings per share.

	Three months ended June 30, 2012		Six months ended June 30, 2012		Three months ended June 30, 2011		Six months ended June 30, 2011	
	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings per share	46,116,402	\$0.12	46,082,881	\$0.36	45,019,682	\$0.00	44,057,061	\$0.16
Adjustments for:								
Dilution effect of options and restricted shares	1,180,699		1,242,000		4,013,626		3,817,683	
Weighted average number of common shares used in diluted earnings per share	47,297,101	\$0.12	47,324,881	\$0.35	49,033,308	\$0.00	47,874,744	\$0.15

(e) Dividends

On May 17, 2012, the Corporation instituted a monthly dividend with the first monthly dividend of \$0.01 per common share (including the restricted shares) payable on June 14, 2012.

For the three and six months ended June 30, 2012, the Corporation paid dividends of \$0.5 million.

High Arctic Energy Services Inc.
Consolidated Financial Statements
For the six months ended June 30, 2012 and 2011
(Canadian \$ Million - Unaudited)

9 Share-based Compensation

Stock Option Plan

The Corporation has a Stock Option Plan under which options to purchase common shares may be granted to directors, management and key employees. A total of 4,977,796 options (being 10% of all outstanding shares) are available for grants.

At June 30, 2012, a total of 1,705,200 options are outstanding and expire at various dates up to 2016, at amounts that range from \$0.75 to \$9.20 per share. These options are exercisable over a term of 5 years and are generally subject to a three year vesting period with 40% exercisable by the holder after the first anniversary date, 70% after the second anniversary date and 100% after the third anniversary date.

	Number of Options	Weighted Average Exercise Price \$/Share
Total Outstanding December 31, 2011	1,244,910	1.24
Granted	728,000	1.53
Exercised	(237,040)	0.76
Expired	(23,300)	3.60
Cancelled/Forfeited	(7,370)	14.74
Total Outstanding June 30, 2012	1,705,200	1.34

Exercise Price Range	Options Outstanding			Exercisable Options	
	Number of Options	Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
\$0.75 to \$0.88	135,500	1.54	0.75	135,500	0.75
\$0.89 to \$1.02	440,800	3.48	1.00	174,400	1.00
\$1.03 to \$1.43	393,200	4.45	1.29	22,000	1.32
\$1.44 to \$1.59	340,000	4.05	1.44	-	-
\$1.60 to \$9.20	395,700	4.84	1.88	7,700	8.80
Total Outstanding June 30, 2012	1,705,200	3.98	\$1.34	339,600	\$1.10

Share-based compensation is a non-cash item and is measured in accordance with a prescribed formula. Share-based compensation expense recognized by the Corporation for the Stock Option Plan for the three and six months ended June 30, 2012 was \$0.2 million and \$0.3 million respectively (2011 - \$0.1 million and \$0.1 million) based on amortizing any expense over the vesting period using the Black-Scholes model. The options measured prior to December 31, 2007 used an average risk-free interest rate of 4.2%; average expected life of 5 years; expected volatility of 75%, an expected forfeiture rate of 10.0% and a weighted average estimate of distribution yield of nil. The 2008 options were measured using an average risk-free interest rate of 3.4%; average expected life of 5 years; expected volatility of 67.3%, an expected forfeiture rate of 10.0% and an expected annual dividend yield of nil. The options in 2009 were measured with a weighted average expected volatility of 117.1%; a risk free interest rate of 1.11%; an expected forfeiture rate of 13.4%, an expected annual dividend yield of 0.0% and an expected life of 5 years. The options in 2010 were measured with a weighted average expected volatility of 138.5%; a risk free interest rate of 1.84%; an expected forfeiture rate of 13.4%, an expected annual dividend yield of 0.0% and an expected life of 5 years. The options in 2011 were measured with a weighted average expected volatility of 142.4%; a risk free interest rate of 1.77%; an expected forfeiture rate of 13.4%, an expected annual dividend yield of 0.0% and an expected life of 5 years. The options in 2012 were measured with a weighted average expected volatility of 145.42%; a risk free interest rate of 1.51%; an expected forfeiture rate of 14.05%, an expected annual dividend yield of 7.5% and an expected life of 5 years.

High Arctic Energy Services Inc.
Consolidated Financial Statements
For the six months ended June 30, 2012 and 2011
(Canadian \$ Million - Unaudited)

Share Incentive Plan

On June 29, 2010, the shareholders approved an Executive and Director Share Incentive Plan (the "Plan"). The maximum number of common shares initially available for issuance by the Corporation under the Plan was 7,578,444 common shares. These shares are issued in trust for the benefit of designated beneficiaries and vest to each designated beneficiary over a 3 year period. The designated beneficiaries of the restricted common shares held in trust have full voting, liquidity, dividend and other related rights similar to the holders of the unrestricted issued common shares. The shares are not freely tradable prior to vesting and any shares that do meet the vesting conditions are returned by the trustee to the Corporation for cancellation. The number of restricted shares granted is reflected under the total issued and outstanding common shares while the value of these shares will be included in the common share capital amount as they vest over the 3 year vesting period and an equivalent share based compensation amount is recorded. A share-based compensation amount for the common shares issued under the plan is measured as the number of common shares multiplied by the trading price of the Corporation's common shares at the time of the grant and that amount is amortized over the vesting period. Each vesting period is treated as a separate tranche for measurement of the non-cash share-based compensation expense. The share-based compensation for each tranche is expensed based on the vesting date for that tranche resulting in a proportionally greater amount being recognized in the earlier periods.

On September 1, 2010, the Corporation issued 7,100,000 shares under the Plan to a trustee for the benefit of designated directors and executive management. These incentive shares have a three year vesting period with 40% vesting on April 1, 2011, 30% on September 1, 2012 and 30% on September 1, 2013 and a share capital amount of \$0.825 per share will be recorded as the related share-based compensation expense is recognized. On March 14, 2011 a further 200,000 shares were granted under the Plan to a trustee for the benefit of designated senior managers. These incentive shares have a three year vesting period with 40% vesting on December 31, 2011, 30% on December 31, 2012 and 30% on December 31, 2013 and a share capital amount of \$1.05 per share will be recorded as the related share-based compensation expense is recognized.

Restricted Common Shares Issued under the Share Incentive Plan:

	Six months ended June 30, 2012	Year ended December 31, 2011
Opening balance	3,540,000	7,100,000
Grant of common shares	-	200,000
Vested common shares	-	(2,920,000)
Forfeitures	-	(840,000)
Closing balance	3,540,000	3,540,000

For the three and six months ended June 30, 2012 the corporation incurred share based compensation expense of \$0.2 million and \$0.5 million respectively (2011 - \$0.3 million and \$1.8 million) and an amount of up to \$0.7 million (before recognizing a reduction for any future forfeitures of common shares) remains to be amortized in future periods in respect of the common shares issued to date under the Plan.

10 Related Party Transactions

During May, 2011 High Arctic made loans to certain directors and officers of the Corporation in the total aggregate amount of \$1.1 million. The purpose of the loans was to assist the directors and officers with the payment of Canadian income taxes arising on the issuance of common shares of the Corporation under the Corporation's executive and director share incentive plan (see Note 9). The amount of each loan was a maximum of 50% of the estimated amount of such taxes payable by the Borrower. The participants of the Plan are subject to taxation immediately upon issuance of the common shares despite the shares being held by a trustee as part of a three year vesting arrangement under the Plan. The principal amount of each loan bears interest at an annual rate of 2%. Each loan is fully payable on the earlier of (i) thirty days after the date that a Borrower ceases to be an employee or director of the Corporation and (ii) April 15, 2014. As at June 30, 2012, the total amount outstanding related to these loans was \$0.6 million.

High Arctic Energy Services Inc.
Consolidated Financial Statements
For the six months ended June 30, 2012 and 2011
(Canadian \$ Million - Unaudited)

11 Gain on Sale of Investments

In the first quarter of 2011, the Corporation recorded a gain of \$2.0 million arising on the sale of shares received as part of a settlement in 2009 of amounts owed to the Corporation by a customer. The shares had no carrying value as the debts had previously been deemed uncollectable and written off and the shares had an uncertain value when acquired. As a result, the full amount of the proceeds of sale of \$2.0 million was recognized in operating earnings.

12 Contingent Liabilities and Contingent Assets

Accounts Receivable

The Corporation has commenced litigation against a customer with respect to collection of a receivable for services rendered outside Canada. The Corporation believes it has made an adequate provision for the possibility of non-collectable amounts. The customer has made a number of allegations and initiated a counter claim of \$5 million concerning performance issues and the cashing of the letter of credit of \$1.0 million. The Corporation has not recorded an accrual in relation to the counter claim as management believes that the claim is without merit.

Inventory

The Corporation has been supplied with an inventory of spare parts with a value of US\$5.6 million by a customer in Papua New Guinea. The inventory is owned by the customer and has not been recorded on the books of High Arctic. At the end of the contract, the Corporation must return an equivalent inventory to the customer. The Corporation believes it currently has sufficient inventory on hand to meet that obligation and accordingly no provision has been made for any potential shortfall.

Other

The Corporation has posted a performance bond of approximately US\$3.8 million, in respect of a contract in the Middle East region, and would be liable if the bond was called as a result of a default by the Corporation in the performance of its obligations under the contract. The expiry date of the performance bond is March 30, 2013. 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 June 30, 2012, the Corporation was not providing any services under that contract. The primary term of the contract ends in August 2012.

13 Capital Disclosures

The Corporation's capital structure is comprised of shareholders' equity described in Note 8, and the long term debt described in Note 7 less cash and cash equivalents.

	June 30, 2012	December 31, 2011
Shareholders' equity (deficiency)	80.5	63.6
Total long-term debt	14.8	17.2
Cash and cash equivalents	(27.6)	(16.5)
Total Capitalization	67.7	64.3

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

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

High Arctic Energy Services Inc.

Consolidated Financial Statements

For the six months ended June 30, 2012 and 2011

(Canadian \$ Million - Unaudited)

The Corporation's loan facilities are subject to four financial covenants, which are reported to the lender on a quarterly basis. These financial covenants are used by management to monitor capital and to assess the funds available to commit for capital expenditures, with the main focus on the Maximum Funded Debt to EBITDA and the Minimum Fixed Charge Coverage Ratios, which are measures that are defined in the lending agreement and have no prescribed meaning under IFRS.

Funded Debt to EBITDA is defined as the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing four quarters. Funded Debt is defined generally as indebtedness and liabilities which constitute debt in accordance with IFRS but excluding accounts payable, other short-term non-interest bearing liabilities and future income taxes. EBITDA is a defined term in the lending agreement and generally means net income plus interest expense, cash taxes payable, depreciation, amortization, future income taxes, share-based compensation and other non-cash expenses and excludes gains or losses from the sale of assets. This ratio must be maintained below 2.00:1. For the rolling four quarters ended June 30, 2012, this ratio was 0.39:1.

Fixed Charge Coverage Ratio is defined as EBITDA less cash taxes, dividends and unfunded capital expenditures divided by the total of principal payments on long-term debt and capital leases plus interest, all calculated on a consolidated basis for the trailing four quarters. This ratio must be maintained above 1.25:1. For the rolling four quarters ended June 30, 2012, this ratio was 5.63:1.

The Corporation remains in compliance with all financial covenants under its credit facility agreement.

14 Financial Instruments and Risk Management

Fair Value of Financial Assets and Liabilities

Accounts receivable and cash and cash equivalents are designated as loans and receivables and recorded at amortized cost, which approximates fair value due to the short-term nature of the instrument. Accounts payable and accrued liabilities and the credit facility are designated as other liabilities and are recorded at cost.

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 capital loan is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. For the three and six months ended June 30, 2012 an increase or decrease in interest expense for each one percent change in interest rates on the loan facility would have amounted to \$0.0 million and \$0.1 million respectively (2011 - \$0.05 million and \$0.1 million).

Foreign Currency Risk

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

For the six months ended June 30, 2012, a 1% nominal change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a \$0.2 million (2011 - \$0.1 million) change in other comprehensive income as a result of changes in foreign exchange.

High Arctic Energy Services Inc.
Consolidated Financial Statements
For the six months ended June 30, 2012 and 2011
(Canadian \$ Million - Unaudited)

Commodity Price Risk

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

Risk of Foreign Operations

The Corporation operates in international locations, including Papua New Guinea, 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 qualified local staff.

Credit Risk

Credit risk is the risk of a financial loss occurring as a result of a default by a counter party on its obligation to the Corporation. The Corporation's financial instruments that are exposed to credit risk consist primarily of accounts receivable and cash balances held in banks. The Corporation mitigates credit risk by regularly monitoring its accounts receivable position and depositing cash in properly capitalized banks. The Corporation also institutes credit reviews prior to commencement of contractual arrangements.

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 a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation has two significant customers. Services are provided to the first significant customer in Papua New Guinea. That customer represents approximately 78% and 62% of the Corporation's revenue for the three and six months ended June 30, 2012 (2011 - 55% and 44%) and 63% of its accounts receivable at that date (2011 - 50%). The second significant customer is a major Canadian exploration and production company which represents approximately 5% and 11% of the Corporation's revenue for the three and six months ended June 30, 2012 (2011 - 10% and 14%) and 4% of the Corporation's accounts receivable at that date (2011 - 8%). 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. Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with either customer.

Liquidity Risk

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

High Arctic Energy Services Inc.
Consolidated Financial Statements
For the six months ended June 30, 2012 and 2011
(Canadian \$ Million - Unaudited)

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

	Current	1-2 Years	3-5 Years	Beyond 5 Years	Total
Accounts payable	13.9	-	-	-	13.9
Long-term debt ⁽¹⁾	5.0	10.0	-	-	15.0
Total	18.9	10.0	-	0.0	28.9

(1) excludes debt transaction costs of \$0.2 million

15 Operating Lease Arrangements

Lease Obligations

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

The minimum lease payments for the next five years as at June 30, 2012 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	0.6	0.6	-	-	1.2
Total lease commitments	0.6	0.6	-	-	1.2

16 Supplemental Cash Flow Information

		Three Months Ended June 30		Six Months Ended June 30	
		2012	2011	2012	2011
Accounts receivable	4	10.3	5.0	3.1	3.9
Inventory and prepaid expenses		0.7	(1.1)	(0.1)	(0.7)
Accounts payable and accrued liabilities	6	(1.1)	1.4	2.3	0.2
Deferred revenue		-	0.1	-	0.4
Income taxes receivable		(1.8)		(1.4)	-
Income taxes payable		-	(1.1)	(0.1)	0.1
		8.1	4.3	3.8	3.9

High Arctic Energy Services Inc.
Consolidated Financial Statements
For the six months ended June 30, 2012 and 2011
(Canadian \$ Million - Unaudited)

17 Operating Segments

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

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Revenue				
Canada	4.5	4.4	23.2	20.0
Papua New Guinea and other	25.1	20.5	48.6	40.8
Total	29.6	24.9	71.8	60.8
Oilfield services expense	22.2	19.0	47.9	42.4
Oilfield services margin	7.4	5.9	23.9	18.4
General and administration	2.2	2.0	4.4	4.0
Share-based compensation	0.4	0.4	0.8	1.9
Amortization	2.3	2.2	4.6	4.0
Gain on sale of investments	-	-	-	(2.0)
Foreign exchange loss (gain)	0.2	0.1	0.1	0.1
Operating earnings from operations	2.3	1.2	14.0	10.4

	As at June 30	As at December 30
	2012	2011
Current assets		
Canada	17.1	15.9
Papua New Guinea	33.3	24.9
Total	50.4	40.8
Non-current assets		
Canada	34.7	29.9
Papua New Guinea	25.1	22.8
Total	59.8	52.7
Total	110.2	93.5
Liabilities		
Canada	18.6	21.3
Papua New Guinea	11.1	8.6
Total	29.7	29.9

High Arctic Energy Services Inc.
Consolidated Financial Statements
For the six months ended June 30, 2012 and 2011
(Canadian \$ Million - Unaudited)

18 Income Tax

As at December 31, 2011 no deferred tax asset was recognized in the statement of financial position for the deductible temporary differences that relate to the available Canadian tax pools. The tax pools on that date are as follows:

Available tax pool	As at December 31, 2011
Property and equipment	17.9
Non- capital losses	93.0
Capital losses	2.7
Financing costs	2.7
Total available tax pools	116.3
Canadian statutory tax rate	25.0%
Available losses at tax rate	29.1

The Corporation determined that sufficient probability of future utilisation existed to record the tax benefit on \$20 million of these available tax pools as at June 30, 2012. As a result, the Corporation recorded a deferred tax asset of \$5.0 million during the three months ended June 30, 2012.