

High Arctic Energy Services Inc.

Consolidated Statement of Financial Position

As at September 30, 2011, December 31, 2010 and January 1, 2010

(Canadian \$ Million - Unaudited)

	Notes	September 30, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets				
Cash and cash equivalents		9.3	24.3	27.6
Accounts receivable	7	18.3	16.0	14.5
Inventories		3.0	2.5	2.8
Prepaid expenses		1.0	0.6	1.1
Income tax receivable		0.8	-	-
Assets held for sale	9	-	1.7	14.6
Assets related to Middle East discontinued operations	22	-	-	0.6
		<u>32.4</u>	<u>45.1</u>	<u>61.2</u>
Non-current assets				
Loans receivable	14	0.8	-	-
Assets held for sale including assets related to discontinued operations in the Middle East	9	-	-	2.0
Property and equipment	8	<u>53.7</u>	<u>45.5</u>	<u>47.3</u>
Total assets		<u>86.9</u>	<u>90.6</u>	<u>110.5</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	10	10.9	11.2	14.9
Income taxes payable		-	0.4	0.4
Due to related parties	14	-	-	7.0
Current portion of long-term debt	11	4.8	-	-
Credit facility	11	-	36.5	65.4
Liabilities related to Middle East discontinued operations	22	-	-	0.3
Convertible debentures	11	-	-	27.9
		<u>15.7</u>	<u>48.1</u>	<u>115.9</u>
Non-current liabilities				
Long-term debt	11	13.6	-	-
Deferred income taxes payable		0.8	0.7	0.7
Total liabilities		<u>30.1</u>	<u>48.8</u>	<u>116.6</u>
Shareholders' equity (deficiency)	12	<u>56.8</u>	<u>41.8</u>	<u>(6.1)</u>
Total liabilities and equity		<u>86.9</u>	<u>90.6</u>	<u>110.5</u>

Commitments and contingencies 17, 20
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 Statement of Income

For the three and nine months ended September 30, 2011 and 2010

(Canadian \$ Million, except per share amounts - Unaudited)

	Notes	Three Months Ended		Nine Months Ended	
		September 30		September 30	
		2011	2010	2011	2010
Continuing operations					
Revenue	21	29.3	29.0	90.1	86.0
Expenses					
Oilfield services	15	19.6	19.2	62.2	55.9
General and administration	15	1.8	1.7	5.7	5.9
Share-based compensation	13	0.4	0.7	2.3	0.7
Amortization	8	2.5	2.0	6.5	5.9
Gain on sale of investments	16	-	-	(2.0)	-
Loss on sale of property and equipment		-	0.1	-	0.1
Foreign exchange loss (gain)		0.8	(0.2)	0.9	0.3
		<u>25.1</u>	<u>23.5</u>	<u>75.6</u>	<u>68.8</u>
Operating earnings from continuing operations		4.2	5.5	14.5	17.2
Interest and finance expense		0.4	1.0	1.5	4.3
Gain on restructuring transactions	12	-	-	-	(2.7)
Net earnings before income taxes		3.8	4.5	13.0	15.6
Income taxes		0.8	1.4	2.8	5.3
Net earnings from continuing operations		3.0	3.1	10.2	10.3
Discontinued operations					
Middle East discontinued operations	22	-	0.1	-	0.3
Net earnings for the period		3.0	3.0	10.2	10.0
Earnings per share:					
Basic	12	0.07	0.07	0.23	0.35
Diluted		0.06	0.07	0.21	0.35
Earnings per share from continuing operations:					
Basic		0.07	0.07	0.23	0.36
Diluted		0.06	0.07	0.21	0.36

See accompanying notes to these consolidated Interim Financial Statements.

High Arctic Energy Services Inc.

Consolidated Statement of Comprehensive Income

For the three and nine months ended September 30, 2011 and 2010

(Canadian \$ Million - Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Net earnings for the period	3.0	3.0	10.2	10.0
Other comprehensive income				
Foreign currency translation gains/(losses) for foreign operations	3.8	(0.8)	2.5	(0.8)
Total comprehensive income for the period	6.8	2.2	12.7	9.2

See accompanying notes to these consolidated Interim Financial Statements.

High Arctic Energy Services Inc.

Consolidated Statement of Changes in Equity (Deficiency)

For the periods ended September 30, 2011 and 2010

(Canadian \$ Million - Unaudited)

	Notes	Share capital	Contributed surplus	Warrants	Convertible debentures	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total equity (deficiency)
Balance at December 31, 2010		165.4	6.3	-	-	(2.3)	(127.6)	41.8
Net earnings		-	-	-	-	-	10.2	10.2
Other comprehensive income - foreign currency translation differences		-	-	-	-	2.5	-	2.5
Share-based payment transactions	13	2.1	0.2	-	-	-	-	2.3
Balance at September 30, 2011		167.5	6.5	-	-	0.2	(117.4)	56.8

See accompanying notes to these consolidated Interim Financial Statements.

	Notes	Share capital	Contributed surplus	Warrants	Convertible debentures	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total equity (deficiency)
Balance at January 1, 2010		126.9	4.6	1.7	2.8	-	(142.1)	(6.1)
Net earnings		-	-	-	(2.8)	-	10.0	7.2
Restructuring transactions	12	36.6	0.6	-	-	-	-	37.2
Other comprehensive income - foreign currency translation differences	6	-	-	-	-	(0.8)	-	(0.8)
Balance at September 30, 2010		163.5	5.2	1.7	-	(0.8)	(132.1)	37.5

High Arctic Energy Services Inc.

Consolidated Statement of Cash Flow

For the three and nine months ended September 30, 2011 and 2010

(Canadian \$ Million - Unaudited)

	Notes	Three Months Ended		Nine Months Ended	
		September 30		September 30	
		2011	2010	2011	2010
Operating activities					
Net earnings for the period		3.0	3.0	10.2	10.0
Adjustments for:					
Amortization	8	2.5	2.0	6.5	5.9
Deferred income taxes		0.1	-	0.1	0.1
Gain on restructuring transactions	12	-	-	-	(5.0)
Loss on sale of property and equipment		-	0.1	-	0.1
Share-based compensation	13	0.4	0.7	2.3	0.7
		6.0	5.8	19.1	11.8
Changes in items of working capital					
Accounts receivable	7	(6.2)	(2.5)	(2.3)	(3.4)
Inventory and prepaid expenses		(0.2)	0.2	(0.9)	0.2
Accounts payable and accrued liabilities	10	(0.5)	1.6	(0.3)	(2.0)
Deferred revenue		(0.4)	(0.3)	-	0.7
Income taxes payable		(1.3)	1.0	(1.2)	0.6
		(8.6)	-	(4.7)	(3.9)
Net cash generated from (used in) operating activities		(2.6)	5.8	14.4	7.9
Investing activities					
Property and equipment		(4.5)	(1.7)	(13.5)	(4.5)
Reimbursable cost recovery for equipment		-	-	1.5	-
Proceeds on sale of property and equipment		-	-	-	8.1
Net cash generated from (used in) investing activities		(4.5)	(1.7)	(12.0)	3.6
Financing activities					
Advances from related parties		-	-	-	0.2
Loans receivable	14	-	-	(0.8)	-
Advance of long-term debt	11	-	-	20.0	-
Repayment of long-term debt	11	(1.3)	-	(1.3)	-
Debt transaction costs	11	0.1	-	(0.3)	-
Repayment of credit facility	11	-	(2.1)	(36.5)	(23.6)
Net cash used in financing activities		(1.2)	(2.1)	(18.9)	(23.4)
Net change in cash from continuing operations		(8.3)	2.0	(16.5)	(11.9)
Cash flow from discontinued operations					
Operating activities		-	(0.1)	-	(0.2)
Proceeds on sale of property and equipment		-	-	-	6.6
Effect of exchange rate changes		2.2	(0.8)	1.5	(1.1)
Net change in cash and cash equivalents		(6.1)	1.1	(15.0)	(6.6)
Cash and cash equivalents – Beginning of period		15.4	19.9	24.3	27.6
Cash and cash equivalents – End of period		9.3	21.0	9.3	21.0

See accompanying notes to these consolidated Interim Financial Statements.

High Arctic Energy Services Inc.

Notes to the Consolidated Interim Financial Statements

For nine months ended September 30, 2011 and 2010

(Canadian \$ Million - Unaudited)

1 Authorization of Financial Statements

The consolidated interim financial statements (“Interim Financial Statements”) of High Arctic Energy Services Inc. (“High Arctic” or the “Corporation”) for the period ended September 30, 2011 were authorized by the Board of Directors on November 10, 2011.

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, work over services and other oilfield services to the oil and gas industry in Canada and Papua New Guinea.

2 Basis of Preparation and Adoption of IFRS

For all periods up to and including the year ended December 31, 2010, the Corporation prepared its financial statements in accordance with pre-changeover Canadian generally accepted accounting principles (pre-change-over Canadian GAAP).

These Interim Financial Statements have been prepared in accordance with International Financial Reporting standards (“IFRS”) applicable to the preparation of Interim Financial Statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in Note 6, the Corporation has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 6 discloses the impact of the transition to IFRS on the Corporation’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Corporation’s consolidated financial statements for the year ended December 31, 2010 and for the three and nine month periods ending September 30, 2010.

The policies applied in these condensed Interim Financial Statements are based on IFRS issued and outstanding as of November 10, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Corporation’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these Interim Financial Statements, including the transition adjustments recognized on change-over to IFRS.

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, 2010 and with the consolidated interim financial statements for the three months ended March 31, 2011.

Note 3 discloses significant IFRS accounting policies for the quarter ended September 30, 2011 that are material to an understanding of these Interim Financial Statements.

These Interim Financial Statements are presented in Canadian dollars.

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3 Significant Accounting Policies

Basis of measurement

These Interim Financial Statements have been prepared on the historical cost basis except for the assets held for sale. The Corporation's assets held for sale are carried at their fair market value less estimated costs to sell.

Use of estimates and judgements

The preparation of the Corporation's Interim Financial Statements in conformity with IFRS requires management to make judgments, 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, the fair value of financial instruments, 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, 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.

Fair value of financial instruments

The Corporation's financial instruments that are included in the consolidated statement of financial position are comprised of cash and cash equivalents, accounts receivable and current liabilities including the credit facility and long term debt. The fair values of financial instruments that are included in the consolidated statement of financial position approximate their carrying amounts due to the short-term maturity of those instruments.

Impairment of property and equipment

Property and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Income taxes

Deferred income tax 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

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shares under the Share Incentive Plan is recognized based on the market value of the Corporation's shares, the vesting period of the plan and the estimated forfeitures.

Principles of consolidation

The consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries. Subsidiaries are entities over which the Corporation has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. The Corporation has several subsidiaries. Subsidiaries are fully consolidated from the date control is transferred to the Corporation, and are de-consolidated from the date control ceases.

Intercompany transactions between subsidiaries are eliminated on consolidation.

Foreign currency

a) Functional and presentation currency

Items included in the Interim Financial Statements of each consolidated entity of the Corporation are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Interim Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency.

The financial statements of entities that have a functional currency different from that of the Corporation ("foreign operations") are translated into Canadian dollars as follows:

- assets and liabilities – at the closing rate at the date of the statement of financial position, and
- income and expenses – at the average rate of the period (where it approximates to the rates at the date of transaction).

All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statement of income.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Initial measurement

Financial instruments are accounted for based on one of five classifications: fair value through profit or loss, held-to-maturity, other financial liabilities, available-for-sale investments and loans and receivables. The classification of a financial instrument depends on its characteristics and the purpose for which it was acquired.

a) Fair value through profit or loss

Fair value through profit or loss financial instruments are financial assets or financial liabilities that are purchased with the intention of selling or repurchasing in the near term. A derivative is classified as

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(Canadian \$ Million - Unaudited)

held for trading unless designated as and considered an effective hedge. Fair value through profit or loss financial instruments are recorded at fair value with any subsequent gains or losses from changes in the fair value included in earnings.

A derivative is a financial instrument whose value changes in response to a specified variable, requires little or no net investment and is settled at a future date. An embedded derivative is a derivative that is part of a non-derivative contract and not directly related to that contract. Embedded derivatives that are not closely related to the host contract must be accounted for as a separate financial instrument. A non-financial derivative is a contract that can be settled net in cash or another financial instrument. Fair values are based upon quoted market prices available from active markets or are otherwise determined using a variety of valuation techniques and models using quoted market prices.

The Corporation may enter into derivative contracts in order to manage risks. These contracts are marked to market at each reporting interval, with the change in estimated fair value recorded as a gain or loss in the period. The Corporation does not use derivative contracts for speculative or hedging purposes at this time. Currently, the Corporation has no qualifying hedging instruments, but in the future may designate any qualifying hedging instrument as a hedge for accounting purposes.

b) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Corporation has the intent and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. Any gains or losses arising from the sale of a held-to-maturity investment are included in earnings.

c) Other financial liabilities

Items classified as other financial liabilities on the Corporation's financial statements are accounted for at amortized cost using the effective interest method. Any gains or losses in the realization of other financial liabilities are included in earnings. The fair value of accounts payable and accrued liabilities and the demand portion of any amounts due to related parties approximate their carrying values due to the short-term nature of these instruments. The fair value of the credit facility, long-term debt and the interest bearing amount due to related parties are recorded at values that estimate the fair value as the interest payable reflects market rates.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise they are presented as non-current liabilities.

d) Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Corporation's available-for-sale assets comprise marketable equity securities. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of other gains and losses when the Corporation's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and are included in other gains and losses.

e) Loans and receivables

All of the Corporation's cash equivalents are designated as loans and receivables. The fair value of cash and cash equivalents approximate their carrying value due to their short-term nature. Other items classified as loans and receivables in the Corporation's financial statements are accounted for at amortized cost using the effective interest method. Any gains or losses on the realization of loans

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(Canadian \$ Million - Unaudited)

and receivables are included in earnings. The fair value of accounts and other receivables and the demand portion of any amounts due from related parties approximate their carrying values due to the short-term nature of these instruments.

Subsequent measurement

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through earnings or loss, loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The measurement of financial liabilities depends on their classification as follows:

a) **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

b) **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

c) **Compound financial instruments (debentures)**

Compound financial instruments issued by the Corporation comprise convertible debentures that can be converted to share capital at the option of the holder, whereby the number of shares to be issued does not vary with changes in their fair value.

Compound financial instruments are comprised of both an equity and liability portion. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Disposal of long-lived assets and discontinued operations

Long-lived assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continued use and such sale is considered highly probable. The criteria

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for classification as held for sale include a firm decision by management or the Board of Directors to dispose of a business or a group of selected assets and the expectation that such disposal will be completed within a 12 month period. Assets held for sale are measured at the lower of their carrying amounts or their fair value less costs to sell and are no longer depreciated. Assets held for sale are classified as discontinued operations if the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes from the rest of the Corporation and they:

- represent a separate major line of business or geographical area of operations;
- are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- are a subsidiary acquired exclusively with a view to resale.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

Depreciation is calculated on the depreciable amount which is the carrying cost of an asset less its residual value.

Depreciation is recognized in the statement of earnings using the declining balance method over the estimated useful lives of the assets at the following rates:

Light vehicles	30%
Heavy trucks	15% - 20%
Office equipment and computer hardware	20% - 30%
Computer software	50% - 100%
Equipment – support and shop	20%
Equipment – drilling support	12.5% - 20%
Equipment – hydraulic workover and UB rigs	12.5% - 15%
Equipment – snubbing	15% - 17.5%
Equipment – nitrogen	17.5%
Leasehold improvements	Lease term or five years

The Corporation allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of income.

Assets-held-for-sale

The Corporation's assets-held-for-sale assets are comprised of property and equipment that is no longer active in the continuing operations of the Corporation. Property and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Inventories

Inventory consists primarily of operating supplies and spare parts not held for sale and are valued at the lower of average cost and net realizable value. Cost includes the cost of purchase as well as any costs of transport.

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Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling costs. A regular review is undertaken to determine the extent of any provision for obsolescence.

Impairment of financial assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss, as follows:

- a) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- b) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed through profit and loss.

Impairment of non-financial assets

Property and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount for an individual asset is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

In some cases, the recoverable amount cannot be determined on an individual asset basis. In these cases, the recoverable amounts are estimated for groups of assets by determining the value in use of the group of assets. This is done by determining the value of the discounted cash inflows less the discounted cash outflows of the group of assets. For the purposes of assessing impairment on groups of assets, the individual assets are grouped together into cash generating units ("CGUs"). Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other Corporation's assets.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of income so as to reduce the carrying amount to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income.

Impairment of non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are measured in accordance with the Corporation's accounting policies. Thereafter, the assets are measured at the lower of their carrying value and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurements are recognized in profit or loss. Gains are not recognized in excess of cumulative impairment loss.

Employee benefits

- a) Pension obligations - defined contribution pension plan
A defined contribution pension plan is a pension plan under which the Corporation pays fixed contributions into a separate entity. The Corporation has no legal or constructive obligations relating to future payments to employees.

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b) Bonus plans

The Corporation recognizes a liability and an expense for bonuses based on various formulae that take into consideration operating earnings and other factors attributable to the financial and operational performance of the Corporation. The Corporation recognizes a provision where contractually obligated or where there is a past practice that has created a constructive obligation.

c) Share-based plans

The Corporation has a stock option plan that provides incentive for directors, management and employees. Options granted are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of stock options are set out in the share-based payment note.

The fair value determined at the grant date of the stock options is recognized as an employee benefit expense, with a corresponding increase in other reserve equity, over the vesting period based on the Corporation's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Corporation revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized immediately.

The Corporation has an Executive and Director Share Incentive Plan that provides incentive for directors and executives. 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 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.

Provisions

Provisions for legal claims and other obligations, where applicable, are recognized in accrued liabilities when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts, and after eliminating intercompany sales. The Corporation bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the rendering of services is recognized when the following criteria are met:

- the amount of revenue can be measured reliably;
- the stage of completion can be measured reliably;
- the receipt of economic benefits is probable; and
- costs incurred and to be incurred can be measured reliably.

In addition to the above general principles, the Corporation applies the following specific revenue recognition policies:

Mobilization revenue:

The Corporation may receive payments from its customers for services yet to be rendered. As service is provided to the customer and the Corporation incurs expenses the Corporation recognizes revenue for the value of the service provided to that point in time.

Interest and finance costs

Interest and finance costs are comprised of interest payable on borrowings calculated using the effective interest rate method, foreign currency gains and losses reported on a net basis as well as foreign currency gains and losses reported on a net basis.

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Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Debt transaction costs incurred in connection with entering into new credit facility agreements are amortized over the term of the debt using the effective interest rate method. All other borrowing costs are recognized in earnings in the period in which they are incurred.

Income tax

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in earnings except to the extent that it relates to the items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Discontinued operations

A discontinued operation is a component of the Corporation's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria under IFRS to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is presented as if the operation had been discontinued from the start of the comparative period.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Dividends

Dividends, if declared, on common shares are recognized in the Corporation's financial statements in the period in which the dividends are approved by the Board of Directors of the Corporation.

Earnings per share

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net earnings or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible debentures, warrants, restricted incentive shares and share options granted to employees.

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Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Corporation has determined that it has one reportable business segment of providing oilfield services to customers.

4 Future Accounting Policies

Prior to the adoption of IFRS by the Corporation, the IASB issued the following new standards which become effective for annual period beginning on or after January 1, 2013:

IFRS 9

IFRS 9, "Financial Instruments", amends the classification and measurement criteria for financial instruments included within the scope of IAS 39. Financial assets will be measured at fair value or amortized cost and the available for sale category will be eliminated. If an equity investment is not required to be classified as held for trading, an irrevocable election can be made upon initial recognition to measure at fair value through other comprehensive income. Financial liabilities will be classified at amortized cost except for financial liabilities at fair value through profit and loss, financial guarantee contracts and commitments to provide a loan at a below market interest rate. A fair value option is available for both financial assets and liabilities as an alternative to amortized cost if certain conditions are met. The Corporation is analyzing the impact the new standard will have on its financial assets and liabilities.

IFRS 10 & IAS 27

IFRS 10, "Consolidated Financial Statements", is part of the group of five new standards that address the scope of the reporting entity. IFRS 10 replaces all of the guidance on control and consolidation in IAS 27, "Consolidated and Separate Financial Statements", and SIC-12, "Consolidation – Special Purpose Entities". IAS 27 is renamed "Separate Financial Statements". The existing guidance for Separate Financial Statements is unchanged. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The changed definition and application guidance is not expected to result in a change in the consolidation decisions made by the Corporation.

IFRS 11

IFRS 11, "Joint Arrangements"; changes in the definition for the 'types' of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. Entities that participate in joint operations will follow accounting much like that for joint assets or joint operations today. Entities with existing joint arrangements or that plan to enter into new joint arrangements will be affected by the new standard. The Corporation does not have any joint arrangements and does not expect this change to have any impact on its reporting.

IFRS 12 & IAS 28

IFRS 12, "Disclosure of Interests in Other Entities", sets out the required disclosures for entities reporting under the two new standards, IFRS 10, "Consolidated Financial Statements", and IFRS 11, "Joint Arrangements"; it replaces the disclosure requirements currently found in IAS 28, "Investments in Associates". The new standard, IFRS 12, requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Corporation is analyzing the impact the new standard will have on its consolidated financial statements.

IFRS 13

IFRS 13, "Fair Value Measurement", defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. The IFRS 13 applies to IFRS standards that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

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5 Key Sources of Estimation Uncertainty

The preparation of the Interim Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments used are based on management's experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the Interim Financial Statements are prepared. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The most significant of these are the estimates used for provisions for impairment of accounts receivable, depreciation and amortization, share-based compensation and deferred income tax assets and liabilities. The effect on the Interim Financial Statements of changes in such estimates in future years could be material.

6 Transition to IFRS

The Corporation's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. These Interim Financial Statements have been prepared under IFRS as described in Note 3.

IFRS requires that comparative financial information be provided. As a result, the first date at which the Corporation has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

Following is a summary of the IFRS exemptions adopted by the Corporation:

IAS 21 – Foreign Exchange

The Corporation determined that the functional currency of its largest foreign operation (Papua New Guinea) to be the United States dollar. The Corporation had previously applied the temporal method where the property and equipment assets were measured at historical rates. Under IFRS, these assets are re-measured at the period ending rate upon consolidation of the financial statements. Through the retroactive application, the Corporation determined that a cumulative translation amount existed. An election exists under IFRS 1 to reset accumulated foreign currency translation amounts to zero and upon conversion to IFRS, High Arctic chose this election. There is no overall impact on the consolidated Interim Financial Statements as a result of this election because the changes affected only components of equity with an overall zero impact.

Reconciliations of Canadian GAAP to IFRS

The tables on the following pages provide reconciliations of the effect of the transition to IFRS.

The adoption of IFRS has had no impact on the net cash flows of the Corporation. The changes made to the consolidated statements of financial position and consolidated statements of comprehensive income have resulted in reclassifications of various amounts on the consolidated statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented.

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Reconciliation of the Consolidated Statement of Equity as previously reported under Canadian GAAP to IFRS

	January 1, 2010			September 30, 2010			December 31, 2010		
	Previous CDN GAAP	Effect of transition to IFRS	IFRS	Previous CDN GAAP	Effect of transition to IFRS	IFRS	Previous CDN GAAP	Effect of transition to IFRS	IFRS
Assets									
Current assets									
Cash and cash equivalents	27.6	-	27.6	21.0	-	21.0	24.3	-	24.3
Accounts receivable	14.5	-	14.5	18.1	-	18.1	16.0	-	16.0
Inventories	2.8	-	2.8	2.8	-	2.8	2.5	-	2.5
Prepaid expenses	1.1	-	1.1	0.9	-	0.9	0.6	-	0.6
Assets held for sale including assets related to discontinued operations in the Middle East	14.6	-	14.6	2.0	-	2.0	1.7	-	1.7
Assets related to Middle East discontinued operations	0.6	-	0.6	0.4	-	0.4	-	-	-
	61.2	-	61.2	45.2	-	45.2	45.1	-	45.1
Non-current assets									
Property and equipment (Note 6a)	47.6	(0.3)	47.3	46.0	(0.4)	45.6	46.4	(0.9)	45.5
Assets held for sale including assets related to discontinued operations in the Middle East	2.0	-	2.0	-	-	-	-	-	-
	110.8	(0.3)	110.5	91.2	(0.4)	90.8	91.5	(0.9)	90.6

High Arctic Energy Services Inc.

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Reconciliation of the Consolidated Statement of Equity as previously reported under Canadian GAAP to IFRS

	January 1, 2010			September 30, 2010			December 31, 2010		
	Previous CDN GAAP	Effect of transition to IFRS	IFRS	Previous CDN GAAP	Effect of transition to IFRS	IFRS	Previous CDN GAAP	Effect of transition to IFRS	IFRS
Liabilities									
Current liabilities									
Accounts payable and accrued liabilities	14.9	-	14.9	8.8	-	8.8	11.2	-	11.2
Income taxes payable	0.4	-	0.4	1.0	-	1.0	0.4	-	0.4
Deferred Revenue				0.7		0.7			
Due to related parties	7.0	-	7.0	-	-	-	-	-	-
Credit facility	65.4	-	65.4	41.8	-	41.8	36.5	-	36.5
Liabilities related to Middle East discontinued operations	0.3	-	0.3	0.2	-	0.2	-	-	-
Convertible debentures	27.9	-	27.9	-	-	-	-	-	-
Total current liabilities	115.9	-	115.9	52.5	-	52.5	48.1	-	48.1
Non-current liabilities									
Deferred income taxes payable	0.7	-	0.7	0.8	-	0.8	0.7	-	0.7
Total liabilities	116.6	-	116.6	53.3	-	53.3	48.8	-	48.8
Equity									
Share capital	126.9	-	126.9	163.5	-	163.5	165.4	-	165.4
Contributed surplus	4.6	-	4.6	5.2		5.2	4.6	1.7	6.3
Convertible debenture	2.8	-	2.8	-	-	-	-	-	-
Warrants	1.7	-	1.7	1.7	-	1.7	1.7	(1.7)	-
Accumulated other comprehensive income (loss) (Note 6a)	-	-	-	-	(0.8)	(0.8)	-	(2.3)	(2.3)
Retained earnings (deficit) (Note 6a)	(141.8)	(0.3)	(142.1)	(132.5)	0.4	(132.1)	(129.0)	1.4	(127.6)
Shareholders' equity (deficiency)	(5.8)	(0.3)	(6.1)	37.9	(0.4)	37.5	42.7	(0.9)	41.8
Total liabilities and equity	110.8	(0.3)	110.5	91.2	(0.4)	90.8	91.5	(0.9)	90.6

See Notes to the Reconciliations below.

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Reconciliation of comprehensive income as previously reported under Canadian GAAP to IFRS

	Notes	Three months ended September 30, 2010			Nine months ended September 30, 2010			Year ended December 31, 2010		
		CDN GAAP	Adj	IFRS	CDN GAAP	Adj	IFRS	CDN GAAP	Adj	IFRS
Continuing operations										
Revenue		29.0	-	29.0	86.0	-	86.0	119.3	-	119.3
Expenses										
Oilfield services		19.2	-	19.2	55.9	-	55.9	77.3	-	77.3
General and administration		1.7	-	1.7	5.9	-	5.9	7.7	-	7.7
Share-based compensation		0.7	-	0.7	0.7	-	0.7	1.9	-	1.9
Amortization		2.0	-	2.0	5.9	-	5.9	7.8	-	7.8
Loss on sale of fixed assets		0.1	-	0.1	0.1	-	0.1	-	-	-
Foreign exchange (gain) loss	6a	0.6	(0.8)	(0.2)	1.1	(0.8)	0.3	1.8	(1.8)	-
		24.3	(0.8)	23.5	69.6	(0.8)	68.8	96.5	(1.8)	94.7
Operating earnings from continuing operations		4.7	0.8	5.5	16.4	0.8	17.2	22.8	1.8	24.6
Interest and finance expense		1.0	-	1.0	4.3	-	4.3	5.3	-	5.3
Gain on restructuring costs		-	-	-	(2.7)	-	(2.7)	(2.6)	-	(2.6)
Net earnings before income taxes		3.7	0.8	4.5	14.8	0.8	15.6	20.1	1.8	21.9
Income taxes		1.4	-	1.4	5.3	-	5.3	6.4	-	6.4
Net earnings from continuing operations		2.3	0.8	3.1	9.5	0.8	10.3	13.7	1.8	15.5
Discontinued operations		0.1	-	0.1	0.3	-	0.3	0.9	0.1	1.0
Net earnings for the period		2.2	0.8	3.0	9.2	0.8	10.0	12.8	1.7	14.5
Other comprehensive income										
Foreign currency translation differences for foreign operations	6a	-	-	-	-	-	-	-	(2.3)	(2.3)
Total comprehensive income for the period attributable to equity holders of the Corporation		2.2	0.8	3.0	9.2	0.8	10.0	12.8	(0.6)	12.2

See Notes to the Reconciliations below.

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Notes to the Reconciliations

a) Foreign Currency Translation

In accordance with IFRS 1, the Corporation has elected to deem all foreign currency translation differences that arose prior to the date of transition to be nil at the date of transition. Under GAAP, the Corporation had previously charged all foreign currency differences to profit and loss and they therefore form part of retained earnings. After transition, the cumulative foreign currency translation differences will be accumulated in a separate component of equity under IFRS rather than forming part of retained earnings.

Under IFRS, all assets and liabilities of foreign subsidiaries will be translated using the end of period exchange rate. The Corporation had previously used the temporal method under GAAP whereby the property and equipment had been translated at their historical rates. There are no income tax effects in the consolidated Interim Financial Statements as these temporary differences have already been accounted for in the financial statements of the Corporation's subsidiaries.

The impact arising from the changes is summarized as follows:

Consolidated Statement of Financial Position

	Property and Equipment	Accumulated Amortization	Net Property and Equipment	Cumulative Translation Account	Retained Earnings (deficiency)
Balance – January 1, 2010 (GAAP)	109.7	(62.1)	47.6	-	(141.8)
Currency translation	(0.8)	0.5	(0.3)	-	(0.3)
Balance - January 1, 2010 (IFRS)	108.9	(61.6)	47.3	-	(142.1)
Balance – September 30, 2010 (GAAP)	114.1	(68.1)	46.0	-	(132.5)
Currency translation	(1.2)	0.7	(0.5)	(0.8)	0.4
Balance – September 30, 2010 (IFRS)	112.9	(67.4)	45.5	(0.8)	(132.1)
Balance – December 31, 2010 (GAAP)	116.4	(70.0)	46.4	-	(129.0)
Currency translation	(1.9)	1.0	(0.9)	(2.3)	1.4
Balance – December 31, 2010 (IFRS)	114.5	(69.0)	45.5	(2.3)	(127.6)

Consolidated Statement of Comprehensive Income

	Net earnings	Other comprehensive income account	Total comprehensive income
Balance – September 30, 2010 (GAAP)	9.2	-	9.2
Currency translation	0.8	(0.8)	-
Balance – September 30, 2010 (IFRS)	10.0	(0.8)	9.2
Balance – December 31, 2010 (GAAP)	12.8	-	12.8
Currency translation	1.7	(2.3)	(0.6)
Balance – December 31, 2010 (IFRS)	14.5	(2.3)	12.2

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7 Accounts Receivable

The aging of accounts receivables is as follows. The allowance for doubtful accounts provision is based on an individual account by account analysis and the customer's prior credit history.

	September 30, 2011	December 31, 2010	January 1, 2010
Less than 31 days	11.2	8.2	11.2
31 to 60 days	5.2	5.5	2.8
61 to 90 days	1.9	1.3	0.8
Greater than 90 days	0.4	1.7	0.4
Allowances for doubtful accounts	(0.4)	(0.7)	(0.7)
Total	18.3	16.0	14.5

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

	September 30, 2011	December 31, 2010	January 1, 2010
Canadian dollar	7.6	7.7	4.9
United States dollar	10.7	8.3	9.6
Total	18.3	16.0	14.5

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8 Property and Equipment

The following table reconciles the property and equipment opening balances and the effects of foreign currency translation on the opening balances.

Cost	Light vehicles	Heavy trucks	Computer software	Oil Field Equipment	Leasehold improvements	Computer hardware and office equipment	Work-in-progress	Total
Balance January 1, 2010	1.8	19.4	0.9	84.5	0.5	1.0	0.8	108.9
Additions	0.5	-	-	5.5	-	0.1	1.4	7.5
Disposals	-	-	-	-	-	-	-	-
Effect of foreign currency exchange	-	(0.1)	-	(1.8)	-	-	-	(1.9)
Balance December 31, 2010	2.3	19.3	0.9	88.2	0.5	1.1	2.2	114.5
Additions	0.6	0.2	0.2	7.8	0.1	-	4.6	13.5
Additions from assets held for sale	-	0.1	-	1.6	-	-	-	1.7
Reimbursable cost recoveries for upgrade of equipment	-	-	-	(1.5)	-	-	-	(1.5)
Disposals	(0.8)	-	-	(0.4)	-	(0.2)	-	(1.4)
Effect of foreign currency exchange	-	-	-	1.4	-	-	0.3	1.7
Balance September 30, 2011	2.1	19.6	1.1	97.1	0.6	0.9	7.1	128.5

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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 January 1, 2010	1.1	12.6	0.7	46.5	-	0.7	-	61.6
Amortization for the period	0.3	1.0	0.1	7.0	0.1	-	-	8.5
Disposals	-	-	-	-	-	-	-	-
Effect of foreign currency exchange	(0.1)	-	-	(1.0)	-	-	-	(1.1)
Balance December 31, 2010	1.3	13.6	0.8	52.5	0.1	0.7	-	69.0
Amortization for the period	0.3	0.7	0.1	4.8	0.1	0.1	-	6.1
Amortization on assets held for sale added to fixed assets	-	-	-	0.4	-	-	-	0.4
Disposals	(0.7)	-	-	(0.5)	-	(0.2)	-	(1.4)
Effect of foreign currency exchange	-	-	-	0.7	-	-	-	0.7
Balance September 30, 2011	0.9	14.3	0.9	57.9	0.2	0.6	-	74.8
Carrying amounts								
At January 1, 2010	0.7	6.8	0.2	9.8	0.5	0.3	0.8	47.3
At December 31, 2010	1.0	5.6	0.1	9.7	0.4	0.3	2.2	45.5
At September 30, 2011	1.2	5.3	0.2	39.2	0.4	0.3	7.1	53.7

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9 Assets Held for Sale

The Corporation previously had \$1.7M of property and equipment classified and recorded as assets held for sale (December 31, 2010 - \$1.7 million) which includes assets related to discontinued operations.

The assets held for sale have been transferred back into fixed assets as they no longer meet the criteria for classification as Assets Held For Sale under IFRS. As a result of the transfer, depreciation was recorded from January 1, 2010 until September 30, 2011 and recorded in the third quarter ended September 30, 2011. This resulted in an adjustment to depreciation of \$0.4 million for the three months ended September 30, 2011. The assets will now continue to be depreciated over their remaining useful life.

	Balance as at September 30, 2011
Assets held for sale including assets related to discontinued operations	
Balance January 1, 2010	16.6
Disposals in nine months ended September 30, 2010	(14.9)
Balance as at September 30, 2010	<u>1.7</u>
Disposals from October 1, 2010 through December 31, 2010	<u>-</u>
Balance as at December 31, 2010	<u>1.7</u>
Transfer assets held for sale to fixed assets from January 1, 2011 to September 30, 2011	<u>(1.7)</u>
Balance as at September 30, 2011	<u>-</u>

10 Accounts Payable and Accrued Liabilities

	September 30, 2011	December 31, 2010	January 1, 2010
Accounts payable	5.5	4.5	2.9
Accrued liabilities	3.8	5.1	10.7
Accrued payroll	1.6	1.6	1.3
Total	<u>10.9</u>	<u>11.2</u>	<u>14.9</u>

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11 Long-Term Debt and Other Borrowings

On May 6, 2011, the Corporation entered into a new credit facility agreement consisting of a \$20.0 million, two year committed capital loan with a four year amortization, a \$5.0 million two year committed revolving evergreen loan and a \$5.0 million demand revolving operating loan. The \$20.0 million capital loan was advanced to the Corporation on May 6, 2011 and the proceeds applied against the term loan outstanding at that time. The credit facilities are secured by all of the assets of High Arctic and by unlimited guarantees of its foreign subsidiaries.

Until May 6, 2011, the Corporation had a one year term loan with no fixed amortization obligations and an interest rate of prime plus 4.75% provided that prime had a floor amount of 4.75%. On May 6, 2011, the Corporation repaid the outstanding amount on that date of \$23.7 million (December 31, 2010 – \$36.5 million).

The capital loan is subject to quarterly principal payments of \$1.25 million and the first quarterly payment was made on September 30, 2011. The capital loan carries an annual interest rate of the bank's prime interest rate plus 1.75% and has a maturity date of September 30, 2013. The effective interest rate on the capital loan was 5% for the period from May 6, 2011 to September 30, 2011.

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 September 30, 2011, the Corporation does not have any amounts drawn against the evergreen loan. The maturity date is September 30, 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 September 30, 2011, the Corporation does not have any amounts drawn against the revolving operating loan.

Long-term debt consists of the following:

	September 30, 2011	December 31, 2010
Two year capital loan, net of transaction costs ⁽¹⁾	18.4	-
Revolving evergreen loan	-	-
	18.4	-
Less: current portion of long-term debt	4.8	-
	13.6	-

(1) The Corporation incurred total transaction costs of \$0.4 million in connection with the new credit facilities which are amortized over the term of the loan as financing expenses.

Convertible Debentures

In November 2007, the Corporation issued \$27.9 million principal amount of unsecured convertible debentures (the "Debentures") with a maturity date of December 31, 2012. Costs related to the issuance of the Debentures were \$1.9 million, of which \$1.7 million was deducted against the related debt and amortized. The costs related to the issuance of the Debentures were fully amortized prior to January 1, 2010.

The entire principal amount and all accrued and unpaid interest owing under the Debentures was converted into 24,736,227 common shares of the Corporation as part of a series of transaction completed on April 30, 2010 (see Note 12b). The Corporation had accrued interest of \$3.7 million up to completion of the restructuring transactions on April 30, 2010.

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Share capital of the 24,736,227 common shares issued in settlement of the principal and interest was recorded at the estimated market value of \$24.7 million resulting in a gain on settlement of \$6.9 million recognized during the second quarter of 2010 (See Note 12).

12 Share Capital and Other Components of Equity

(a) Details of shareholders equity (deficiency)

Reconciliation of equity

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

	September 30, 2011	December 31, 2010	January 1, 2010
Retained earnings (deficit)	(117.4)	(127.6)	(142.1)
Common shares (b)	167.5	165.4	126.9
Convertible debentures, equity portion (note 11)	-	-	2.8
Warrants	-	-	1.7
Contributed surplus (c)	6.5	6.3	4.6
Accumulated other comprehensive income(loss)	0.2	(2.3)	-
Total equity (deficiency)	56.8	41.8	(6.1)

(b) Changes in Issued Shares

	September 30, 2011		December 31, 2010	
	Shares	\$	Shares	\$
Opening balance	43,083,752	163.6	9,088,473	126.9
Issuance of shares	52,885	-	139,228	0.1
Issuance of shares on restructuring transactions	-	-	33,856,051	36.6
Vested restricted shares (note 13)	2,840,000	1.5	-	-
Common shares outstanding	45,976,637	165.1	43,083,752	163.6
Restricted shares outstanding (note 13)	3,620,000	2.4	7,100,000	1.8
Total common and restricted shares outstanding	49,596,637	167.5	50,183,752	165.4

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 nine months ended September 30, 2011, a total of 52,885 stock options were exercised for shares of the Corporation (see Note 13). For the year ended December 31, 2010, a total of 14,228 stock options were exercised for shares of the Corporation (see Note 13) and 125,000 common shares were issued as a non-brokered private placement as part of an arrangement to settle an outstanding obligation.

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Restructuring transactions

On April 30, 2010 the Corporation completed a series of transactions whereby the Corporation:

- issued 6,593,677 common shares in settlement of all outstanding indebtedness and claims owing by the Corporation to related parties (see Note 14);
- converted the Corporation's outstanding Debentures into 24,736,227 common shares in full settlement of all outstanding principal and accrued interest owed to the holders of the Debentures (see Note 11); and
- issued 2,526,148 common shares to its senior lenders as consideration for a one year term loan to refinance the existing senior credit facilities.

The Corporation issued a total of 33,856,052 common shares as part of the restructuring transactions. The shares were issued at a nominal value of \$1.25 per share. The amount recorded in share capital for the 33,856,052 common shares is the estimated market value of \$33.8 million determined as the trading price of \$1.00 per share at the closing date.

The restructuring transactions resulted in a gain of \$2.7 million being recorded in the three months ended September 30, 2010. Details on the restructuring transactions are summarized as follows:

	Number of Shares	\$ value of Shares	Gain (Loss)
Issuance of common shares on related party debt settlement (Note 14)	6,593,677	6.6	0.6
Issuance of common shares on debenture conversion (Note 11)	24,736,227	24.7	6.9
Issuance of common shares for financing fee (Note 11)	2,526,148	2.5	(2.5)
Transfer of the equity portion of debentures to share capital on debenture conversion (Note 11)	-	2.8	-
Non-cash portion of gain on restructuring transactions	-	-	5.0
Fee on restructuring of credit facility	-	-	(0.4)
Restructuring costs	-	-	(1.9)
	<u>33,856,052</u>	<u>36.6</u>	<u>2.7</u>

(c) Contributed Surplus

	Nine Months Ended September 30, 2011	Year ended December 31, 2010
Opening balance	6.3	4.6
Expiry of warrants	-	1.7
Share-based compensation (Note 13)	0.2	-
Closing balance	<u>6.5</u>	<u>6.3</u>

(d) Per Share Amounts

The following table summarizes the weighted average number of common shares used in calculating basic and diluted earnings per share. All potentially dilutive instruments such as options, the restricted shares issued under the Executive and Director Share Incentive Plan, warrants and the convertible debentures are considered. The warrants and convertible debentures are anti-dilutive. Earnings (loss) from discontinued operations have no material effect on the earnings per share calculations.

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	Three months ended September 30, 2011		Nine months ended September 30, 2011		Three months ended September 30, 2010		Nine months ended September 30, 2010	
	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	45,976,629	\$0.07	44,703,948	\$0.23	42,945,212	\$0.07	28,062,970	\$0.35
Adjustments for:								
Convertible debentures	-		-		-		-	
Stock options	124,409		126,225		144,995		161,458	
Restricted shares	3,620,000		3,567,253		-		-	
Weighted average number of common shares used in diluted earnings per share	49,721,038	\$0.06	48,397,426	\$0.21	43,090,207	\$0.07	28,224,428	\$0.35

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13 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 4,959,663 options (being 10% of all outstanding shares) are available for grants.

At September 30, 2011, a total of 1,311,710 options are outstanding and expire at various dates up to 2016, at amounts that range from \$0.65 to \$49.99 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. The options have an average remaining contractual life of 3.77 years and 279,445 options are currently vested and eligible to be exercised.

	Number of Options	Weighted Average Exercise Price \$/Share
Total Outstanding January 1, 2010	642,110	3.95
Granted	617,500	1.00
Exercised	(14,228)	0.75
Expired	(11,900)	52.65
Forfeited	(88,002)	5.75
Total Outstanding December 31, 2010	1,145,480	1.75
Granted	403,500	1.41
Exercised	(52,885)	.75
Expired	(5,800)	53.74
Forfeited	(178,585)	2.61
Total Outstanding September 30, 2011	1,311,710	1.35

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 (\$)
\$0.65 to \$9.99	1,294,940	3.77	1.11	262,675	1.00
\$10.00 to \$19.99	11,070	-	13.77	11,070	13.77
\$20.00 to \$34.99	4,700	-	29.92	4,700	29.92
\$35.00 to \$49.99	1,000	-	46.35	1,000	46.35
Total Outstanding September 30, 2011	1,311,710	3.77	1.35	279,445	2.15

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 each of the three and nine months ended September 30, 2011 was \$0.1 million and \$0.2 million (2010 - nil) 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 40% to September 30, 2007 and 75% thereafter 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%;

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average expected life of 5 years; expected volatility of 67.3% 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%; 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%; 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%; expected annual dividend yield of 0.0% and an expected life of 5 years.

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:

	Nine months ended September 30, 2011	Year ended December 31, 2010
Opening balance	7,100,000	-
Grant of common shares	200,000	7,100,000
Vested common shares	(2,840,000)	-
Forfeitures	(840,000)	-
Closing balance	<u>3,620,000</u>	<u>7,100,000</u>

For the three and nine months ended September 30, 2011 the corporation incurred share based compensation expense of \$0.3 million and \$2.1 million, respectively (\$1.8 million was recorded for the year ended December 31, 2010) and an amount of up to \$1.4 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.

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14 Related Party Transactions

- (a) 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 13). 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 September 30, 2011, the total amount outstanding related to these loans was \$0.8 million.
- (b) An individual who, prior to April 30, 2010, controlled almost 40% of the outstanding shares and who was a director and officer of the Corporation until December 16, 2008 (the "Shareholder") made various loans and advances to the Corporation. Interest expense for the nine months ended September 30, 2010 includes \$0.2 million accrued to March 31, 2010. As part of the restructuring transactions completed on April 30, 2010 (see Note 12), the Corporation issued 6,593,677 common shares to the Shareholder and companies controlled by him in settlement of the outstanding obligations owing by the Corporation on that date with a recorded amount of approximately \$7.2 million.

15 Expenses

Oilfield Services expenses by nature

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Personnel costs and personnel related costs	11.4	10.3	31.8	27.9
Drilling rig rental cost	4.7	4.7	16.3	12.9
Material and supplies cost	1.6	3.2	7.6	10.4
Equipment operating and maintenance costs	1.0	0.5	4.7	3.4
Other	0.9	0.5	1.8	1.3
Total	19.6	19.2	62.2	55.9

General and administrative expenses by nature

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Personnel costs and personnel related costs	1.0	1.1	3.4	3.5
Professional, legal and consulting fees	0.2	0.3	0.8	0.8
Facility costs	0.6	0.3	1.4	1.3
Other	-	-	0.1	0.3
Total	1.8	1.7	5.7	5.9

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16 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 of Transeuro Energy Corp. ("Transeuro"). The shares were received as part of a settlement in 2009 of amounts owed to the Corporation by Transeuro. 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.

17 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 \$5.2 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. 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 September 30, 2011, the Corporation was not providing any services under that contract. The term of the contract ends in August, 2012.

18 Capital Disclosures

The Corporation's capital structure is comprised of shareholders' equity (deficiency), described in Note 12, and the long term debt, credit facility and convertible debentures described in Note 11 less cash and cash equivalents.

	September 30, 2011	December 31, 2010	January 1, 2010
Shareholders' equity (deficiency)	56.8	41.8	(6.1)
Convertible debentures	-	-	27.9
Credit facility	-	36.5	65.4
Total long-term debt	18.4	-	-
Cash and cash equivalents	(9.3)	(24.3)	(27.6)
Total Capitalization	65.9	54.0	59.6

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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.

The Company'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 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 and gains or losses from the sale of assets. This ratio must be maintained below 2.00:1. For the rolling four quarters ended September 30, 2011, this ratio was 0.60:1.

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 September 30, 2011, this ratio was 10.7:1.

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

19 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 nine months ended September 30, 2011 an increase or decrease in interest expense for each one percent change in

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interest rates on the loan facility would have amounted to \$0.05 million and \$0.2 million respectively (2010 - \$0.1 million and \$0.3 million respectively).

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 nine months ended September 30, 2011, 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 (2010 - \$0.2 million) change in other comprehensive income 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, 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 57% and 48% of the Corporation's revenue for the three and nine months ended September 30, 2011 and 53% of its accounts receivable at that date. The second significant customer is a major Canadian exploration and production company which represents approximately 10% and 12% of the Corporation's revenue for the three and nine months ended September 30, 2011 and 3% 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. Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with either customer.

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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 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	10.9	-	-	-	10.9
Long-term debt ⁽¹⁾	5.0	10.0	3.7	-	18.7
Total	15.9	10.0	3.7	-	29.6

(1) excludes debt transaction costs of \$0.3 million

20 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 September 30, 2011 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	0.5	0.7	0.2	-	1.4
Total lease commitments	0.5	0.7	0.2	-	1.4

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21 Operating Segments

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

	Three Months Ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenue				
Canada	11.2	9.2	31.2	27.0
Papua New Guinea and other	18.1	19.8	58.9	59.0
Total	29.3	29.0	90.1	86.0
Oilfield services expense	19.6	19.2	62.2	55.9
Oilfield services margin	9.7	9.8	27.9	30.1
General and administration	1.8	1.7	5.7	5.9
Share-based compensation	0.4	0.7	2.3	0.7
Amortization	2.5	2.0	6.5	5.9
Gain on sale of investments	-	-	(2.0)	-
Loss on sale of fixed assets	-	0.1	-	0.1
Foreign exchange loss (gain)	0.8	(0.2)	0.9	0.3
Operating earnings from continuing operations	4.2	5.5	14.5	17.2
	Three Months Ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Assets				
Canada	41.2	48.5	41.2	48.5
Papua New Guinea and other	45.7	42.3	45.7	42.3
Total	86.9	90.8	86.9	90.8
Liabilities				
Canada	21.4	45.3	21.4	45.3
Papua New Guinea and other	8.7	8.0	8.7	8.0
Total	30.1	53.3	30.1	53.3

22 Discontinued Operations

A decision was made during 2008 to discontinue operations in the Middle East Region, including Tunisia and India, due to ongoing losses. During 2010, the Corporation divested of the remaining assets and used the net proceeds to reduce its debt.

Comparative figures have been adjusted to remove activities in the Middle East region and to report those amounts as a discontinued operation.