

# High Arctic Energy Services Inc.

(formerly High Arctic Energy Services Trust)

## Consolidated Balance Sheets

As at March 31, 2008 and December 31, 2007

(\$ Million - unaudited)

	2008 \$	2007 \$
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 5)	24.9	21.0
Accounts receivable (notes 5 and 11)	37.6	40.0
Work-in-progress	-	0.5
Due from Optimal Drilling	1.0	-
Inventory	1.7	2.0
Prepaid expenses	1.2	1.7
	<hr/> 66.4	<hr/> 65.2
Property and equipment (note 3)	105.9	105.2
Rigs and equipment under construction (note 4)	5.9	2.5
Assets held for sale (note 3)	52.8	52.9
Long-term receivable (note 11)	2.5	2.5
Future taxes	0.5	0.5
	<hr/> 234.0	<hr/> 228.8
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	29.9	26.0
Income taxes payable	5.5	4.2
Prepaid mobilization revenue	1.7	1.6
Due to related parties (note 10)	5.2	5.4
Credit facility and bridge loan (note 6)	124.2	122.9
	<hr/> 166.5	<hr/> 160.1
Convertible debentures (note 7)	<hr/> 23.9	<hr/> 23.3
	190.4	183.4
<b>Shareholders' equity (note 8)</b>	<hr/> 43.6	<hr/> 45.4
	<hr/> 234.0	<hr/> 228.8

### Basis of presentation (note 1)

### Commitments and contingencies (notes 5 and 11)

See accompanying notes

Approved on behalf of the Corporation by:

(signed) "Jed Wood" Director

(signed) "Christopher Warren" Director

# High Arctic Energy Services Inc.

(formerly High Arctic Energy Services Trust)

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

For the three months ended ended March 31, 2008 and March 31, 2007

(\$ Million except per unit amounts - unaudited)

	2008	RESTATED (1)
	\$	2007
		\$
<b>Revenue (note 12)</b>	46.2	44.2
<b>Expenses</b>		
Oilfield services	31.8	29.1
General and administration	5.2	3.2
Write-down of long-term receivable (note 11)	-	1.1
Amortization	4.3	5.0
Foreign exchange (gain) loss	(1.2)	0.5
	40.1	38.9
	6.1	5.3
Interest (note 4)	6.3	1.0
Financing costs	0.7	-
Gain on sale of property, equipment and investments	(0.3)	(0.9)
<b>Net earnings (loss) before income taxes</b>	(0.6)	5.2
<b>Income taxes</b>	1.6	0.2
<b>Net earnings (loss) and comprehensive income (loss)</b>	(2.2)	5.0
<b>Retained earnings (Deficit) – beginning of period</b>	(85.6)	(13.9)
Distributions as a Trust	-	(2.1)
<b>Retained earnings (Deficit)– end of period</b>	(87.8)	(11.0)
<b>Earnings (loss) per share - basic and diluted (note 8 (e))</b>	(0.05)	\$ 0.19

### Basis of presentation (note 1)

(1) Comparative figures were previously restated for the period ending March 31, 2007.

See accompanying notes

# High Arctic Energy Services Inc.

(formerly High Arctic Energy Services Trust)

## Consolidated Statements of Cash Flows

For the three months ended March 31, 2008 and March 31, 2007

(\$ Million - unaudited)

	2008	RESTATED (1)
	\$	2007
		\$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net earnings (loss)	(2.2)	5.0
Add non-cash items:		
Amortization	4.3	5.0
Financing accretion and amortization	2.4	-
Share-based compensation	0.4	0.2
Gain on sale of property and equipment and investments	(0.3)	(0.9)
	<u>4.6</u>	<u>9.3</u>
Change in non-cash working capital balances (note 13)	7.8	(0.4)
	<u>12.4</u>	<u>8.9</u>
<b>Investing activities</b>		
Property and equipment and rigs and equipment under construction	(8.7)	(19.6)
Proceeds on sale of property and equipment and investments	0.6	2.3
Change in non-cash working capital balances (note 13)	0.3	(4.2)
	<u>(7.8)</u>	<u>(21.5)</u>
<b>Financing activities</b>		
Advances from (to) related parties	(0.2)	4.5
Change in credit facility	(0.5)	(2.7)
Issuance of shares, net of costs	-	12.6
Distributions as a Trust	-	(2.1)
Change in non-cash working capital balances (note 13)	-	0.7
	<u>(0.7)</u>	<u>13.0</u>
<b>Net increase in cash and cash equivalents</b>	3.9	0.4
<b>Cash and cash equivalents – beginning of period</b>	<u>21.0</u>	<u>3.1</u>
<b>Cash and cash equivalents – end of period</b>	<u>24.9</u>	<u>3.5</u>
<b>Supplemental information</b>		
<b>Cash paid for:</b>		
Interest	3.9	2.1
Income taxes	-	0.2

### Basis of presentation (note 1)

(1) Comparative figures were previously restated for the period ending March 31, 2007.

See accompanying notes

# High Arctic Energy Services Inc.

(formerly High Arctic Energy Services Trust)

## Notes to Consolidated Financial Statements

**March 31, 2008**

(tabular amounts in millions of dollars, except per share amounts - Unaudited)

### 1 Basis of presentation

High Arctic Energy Services Inc. (the "Corporation" or "HAES") is incorporated under the laws of Alberta, Canada and commenced operations on June 29, 2007 as a consequence of reorganization through a Plan of Arrangement approved by the security holders of the High Arctic Energy Services Trust (the "Trust"). The reorganization resulted in the Corporation acquiring the business of the Trust through the exchange of each outstanding Trust Unit or Exchangeable Share of the Trust on a one-for-one basis, after accounting for the conversion factor applicable to certain Exchangeable Shares, for common shares of the Corporation (see note 8). For accounting purposes, the Corporation is considered a continuation of the Trust.

The Corporation's principal focus is to engage in the global oilfield services business by providing specialized drilling and production services to the Canadian and international oil and gas industry. The Corporation's Canadian operations are considered to have some seasonality with peak levels in the first and fourth quarters.

These unaudited consolidated financial statements are stated in Canadian dollars and have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") on a going concern basis. The consolidated earnings and cash flows for the periods prior to June 29, 2007 are those of the Trust. The going concern basis presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Corporation's ability to continue as a going concern is dependent upon improving cash flow from operations and complying with the terms of its outstanding debt. The Corporation has obtained a number of waivers from its banking covenants (see note 6) as a result of not generating sufficient cash flows from operations. The Corporation expects that it will need to obtain a new credit facility or negotiate further amendments and extensions of its existing credit facilities in conjunction with asset sales and equity issues to reduce its debt. While the Corporation is focusing its best efforts on these matters, the outcome cannot be predicted at this time. There is therefore a risk regarding the Corporation's ability to continue as a going concern. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Corporation be unable to continue in business and therefore be unable to realize its assets and discharge its liabilities in the normal course of business. Such adjustments could be material.

### 2 Accounting policies

The unaudited interim financial statements of the Corporation and its subsidiaries are presented in accordance with GAAP. These statements have been prepared using the same accounting policies and methods of computation as described in the financial statements for the year ended December 31, 2007, except as noted below. Accordingly, they should be read in conjunction with the annual audited financial statements and notes thereto for the period ended December 31, 2007.

#### New accounting policies

As disclosed in the December 31, 2007 financial statements, the company adopted the following sections from the Canadian Institute of Chartered Accountants ("CICA") handbook:

- I. Section 1535 "Capital Disclosures". The new standard requires disclosure of the Corporation's objectives, policies and processes for managing capital. This includes qualitative information regarding the Corporation's objectives, policies and processes for managing capital and quantitative data about what the Corporation manages as capital. These disclosures are based on information that is provided internally to the Corporation's key management. (see note 14).
- II. Section 3031 "Inventories". The new disclosure replaces Section 3030 and provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Corporation's accounting policy for inventories is consistent with measurement requirements in the new standard and therefore it is not anticipated that the results of the Corporation will be impacted.
- III. Sections 3862 and 3863 replace section 3861 "Financial Instruments – Disclosure and Presentation" which revises and enhances financial instruments disclosure requirements and leaves unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Corporation manages those risks. (see note 15).

#### Future Accounting Changes

The CICA has issued a new standard to replace the existing Goodwill and Intangible Assets standard. As of January 2009, the Corporation will be required to meet the new requirements defined in section 3064 for recognition, measurement,

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## Notes to Consolidated Financial Statements

March 31, 2008

(tabular amounts in millions of dollars, except per share amounts - Unaudited)

presentation and disclosure of intangible assets. These changes will affect the Corporation's policy of deferring start up costs during pre-operational periods.

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

### Comparative figures

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

### 3 Property and equipment

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Automotive	2.6	0.8	1.8
Computer hardware	0.5	0.2	0.3
Computer software	0.8	0.5	0.3
Equipment – field	15.7	6.5	9.2
Equipment – drilling rigs	26.3	3.7	22.6
Equipment – hydraulic workover rigs	50.5	11.6	38.9
Equipment – snubbing, air drilling and nitrogen	55.3	24.8	30.5
Equipment – office	0.5	0.2	0.3
Leasehold improvements	3.2	1.2	2.0
	155.4	49.5	105.9

  

	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Automotive	1.5	0.7	0.8
Computer hardware	0.8	0.3	0.5
Computer software	0.8	0.5	0.3
Equipment – field	32.6	9.4	23.2
Equipment – drilling rigs	7.2	1.3	5.9
Equipment – hydraulic workover rigs	48.9	9.3	39.6
Equipment – snubbing, air drilling and nitrogen	55.3	23.3	32.0
Equipment – office	0.7	0.2	0.5
Leasehold improvements	4.9	2.5	2.4
	152.7	47.5	105.2

In 2007, the Corporation provided for the impairment related to drilling rigs and related support equipment that are the subject of current negotiations for disposition. The assets have been recorded as assets held for sale in the amount of \$44.8 million. During 2007, the Corporation completed construction of a heliportable drilling rig and related support equipment to support a contract with Transeuro Energy Corp. ("Transeuro") that is now part of the litigation with Transeuro (see note 11). The corporation has undertaken steps to sell this specialized rig. The remaining balance of \$8.0 million has been classified as an asset held for sale.

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### 4 Rigs and equipment under construction

	Three Months Ended March, 31 2008 \$	Year Ended December 31, 2007 \$
<b>Equipment – hydraulic workover and drilling rigs</b>		
Opening balance	-	23.9
Construction costs and capitalized interest	-	8.0
Units completed and transferred to property and equipment	-	(23.9)
Units completed and transferred to assets held for sale, net of impairment	-	(8.0)
	-	-
<b>Equipment – snubbing, air drilling and nitrogen</b>		
Opening balance	0.9	38.0
Construction costs and capitalized interest	0.6	14.3
Units completed and transferred to property and equipment	-	(49.8)
	1.5	2.5
<b>Equipment – Optimal Pressure Drilling Services</b>		
Opening balance (commenced January 1, 2008)	1.6	-
Construction costs	2.8	-
Units completed and transferred to property and equipment	-	-
	4.4	-
	5.9	2.5

The Corporation capitalizes interest on the equipment loan (see note 6) relating to rigs and equipment under construction. During the three months ended March 31, 2008 no interest was capitalized to rigs and equipment under construction (2007 - \$1.1 million).

### 5 Investment in joint venture

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

The Joint Venture is owned 51% by the Corporation and 49% by Schlumberger through direct investments in Optimal Canada and Optimal Mexico. As part of the initial formation of the Joint Venture, the Corporation sold its existing UBD and MPD equipment and the technology associated with its existing UBD and MPD businesses, including intellectual property rights, to those entities for proceeds of approximately US\$18.2 million. The Joint Venture start-up and ongoing capital needs will be proportionately funded by the Corporation and Schlumberger.

As per the terms of the Joint Venture agreement, the parties entered into a put & call agreement that will allow the Corporation to sell its interest to Schlumberger or Schlumberger to purchase the interest of the Corporation based on a certain premium to the fair market value of the JV Entities at the time of exercise, as determined under the put & call agreement. The put or the call can be exercised by the holder at any time after the first year from the date of closing and during the first year the call can be exercised by Schlumberger in the event of certain distress events or a change in control of the Corporation. The put & call agreement contains the procedures for determining the fair market value at the time of exercise. Following an exercise of the put or the call, the Corporation would be prevented from conducting UBD and MPD activities and competing directly or indirectly with Schlumberger (and the JV Entities) for a period of three (3) years. However, this non-compete provision does not apply to UBD and MPD activities conducted by the Corporation within Canada, the United States of America, Western Europe and Papua New Guinea.

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The Joint Venture agreement sets out the initial cash contribution commitment to the JV Entities that is required for such entities to meet their anticipated capital requirements for the first year. The cash contributions are being used by the Joint Venture to fund the purchase of equipment required for the business and for working capital. The Corporation's portion of the initial cash commitment was US\$33.2 million of which US\$18.9 million was paid on closing at December 31, 2007, and US\$7.1 million was paid in March 2008. The balance of US\$7.2 million will be advanced as required by the Joint Venture. Of the US\$26.0 million, advanced by the Corporation to March 31, 2008, an amount of US\$0.8 million was paid to Optimal Canada in the form of share capital and US\$25.2 million was paid to Optimal Mexico in the form of an interest bearing shareholder loan of US\$20.6 million and share capital of US\$4.6 million. The additional US\$7.1 million was advanced as a shareholder loan which brings the total to US\$20.7. The shareholder loan is unsecured, bears interest at a rate of 8% per annum payable quarterly, the principal is repayable at any time at the option of Optimal Mexico and the Corporation is entitled to full repayment upon ceasing to be a shareholder. Schlumberger contributed proportionate amounts based on its 49% interest.

The Joint Venture commenced operations January 1, 2008. Summarized financial information (in CDN\$) for the Corporation's 51% proportionate interest in the joint venture at March 31, 2008 is as follows:

<b><u>Balance sheet</u></b>	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<b>\$</b>	<b>\$</b>
Cash	8.4	14.3
Equipment under construction	4.4	0.2
Accounts receivable	1.5	0.1
Total current assets	<hr/> 14.3	<hr/> 14.6
Property and equipment	13.3	13.2
Total assets	<hr/> 27.6	<hr/> 27.8
Accounts payable	0.8	0.0
Due to High Arctic Energy Services	1.0	9.0
Notes payable to joint venture owners	21.2	13.4
Total liabilities	<hr/> 23.0	<hr/> 22.4
Shareholders equity & retained earnings	<hr/> 4.6	<hr/> 5.4
Total liabilities and shareholder equity	<hr/> 27.6	<hr/> 27.8
<b><u>Income statement</u></b>	<b>Three Months</b>	
	<b>Ended March 31,</b>	
	<b>2008</b>	
	<b>\$</b>	
Revenue	1.5	
Oilfield services	1.3	
General & administration	0.1	
Amortization	0.5	
Foreign exchange (Gain) Loss	0.2	
Interest	0.3	
	<hr/>	
Net earnings (loss)	(0.9)	

The Corporation deferred a gain on sale of \$2.4 million on the equipment sold to the Joint Venture in 2007. A gain of 0.1 is included in income for the three months ended March 31, 2008 on a basis consistent with the future amortization of the related assets by the Joint Venture.

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(tabular amounts in millions of dollars, except per share amounts - Unaudited)

### 6 Revolving credit facility and bridge loan

The Corporation has a revolving credit facility with a syndicate of commercial lenders. The facility is comprised of a \$20-million revolving loan ("Facility A") and a \$100-million equipment based revolving loan ("Facility B"). Facility A may be drawn to a maximum of the lesser of \$20-million and the total of 75% of eligible Canadian accounts receivable aged less than 90 days and 90% of eligible foreign receivables insured by the Export Development Canada (the "Facility A Borrowing Base"). Facility B may be drawn to a maximum of the lesser of \$100-million and 75% of the appraised orderly liquidation value of eligible equipment (the "Facility B Borrowing Base"). The Corporation also entered into a bridge facility credit agreement with one of the syndicate lenders dated July 12, 2007 for a \$20-million multi-draw bridge loan facility (the "Bridge Loan") which was subsequently drawn down in full by the Corporation. The obligations under the revolving credit facility and the Bridge Loan are secured by, among other things, the pledge of accounts receivable and the eligible equipment pursuant to debentures under which the Corporation and certain subsidiaries grant security over all of their respective assets. The lenders have also taken security over any proceeds arising under the put & call agreement described in Note 5.

As at March 31, 2008, the Corporation owed approximately \$6.8 million on Facility A (2007 – \$6.8 million), \$99.3 million on Facility B (2007 - \$99.6 million) and \$20.0 million on the Bridge Loan (the aggregate amounts owing on Facility A, Facility B and the Bridge Loan are herein referred to as the "Consolidated Debt"). Accordingly, the Corporation's Consolidated Debt was approximately \$126.1 million (December 31, 2007 - \$126.4 million) excluding debt issue costs that were offset against that amount as reported on the balance sheet. The revolving term period of Facility A and Facility B ends on June 30, 2008 after which the outstanding principal will become payable over a 36-month period. The maturity date of the Bridge Loan is June 30, 2008. The Corporation has obtained waivers and amendments of certain financial covenant requirements in the past and expects that similar waivers and amendments may be necessary in the future. Without the required waivers and amendments by the lenders, the Corporation could have a covenant default during 2008 that would result in the Consolidated Debt being repayable immediately and could trigger a cross default under the Convertible Debentures (see Note 7).

Effective on October 22, 2007, the revolving credit facility and the Bridge Loan were amended (the "Amendments"). The Amendments extended the term of the revolving credit facility and the maturity date for the Bridge Loan to June 30, 2008. The Amendments also modified the interest rate and certain other terms of the revolving credit facility and Bridge Loan including the application of the financial covenant tests. The interest rate after October 22, 2007 applicable to all prime loans under the revolving credit facility is prime plus 2% for amounts drawn up to 2.75x consolidated earnings before interest, depreciation, amortization and taxes and prime plus 4% for the excess drawn over the 2.75x amount. The interest rate applicable to the Bridge Loan is prime plus 6.25%. Prior to October 22, 2007, the interest rate applicable to all prime loans under the revolving credit facility was prime plus 1% and prime plus 6.25% under the Bridge Loan.

As at March 31, 2008, the Facility B Borrowing Base was \$92.0 million and the amount owed was \$99.3 million, resulting in a shortfall of approximately \$7.3 million caused by the transfer of equipment from Canada to the international operations. The Amendments permit a shortfall of up to \$9.0 million until February 10, 2008 and that date has since been extended to May 30, 2008. The Corporation is not permitted any further draws under its revolving credit facilities until its Consolidated Leverage Ratio ("CLR") is below 2.75 to 1.0.

The CLR is defined in the revolving credit facility agreement as, in general terms, consolidated total debt, as defined, divided by the 12-month trailing adjusted consolidated earnings before interest, depreciation, amortization and taxes. At March 31, 2008, the Corporation had a CLR of approximately 6.33 to 1.0 which was within the required level of 8.4 to 1.0.

The CLR test is applied monthly and, through a series of amendments made in 2008, the maximum CLR was set at 8.00 to 1.0 for the months ended September 30, 2007 to January 31, 2008, 8.40 to 1.0, 9.25 to 1.0 and 7.25 to 1.0 for the months ended February 28, 2008, March 31, 2008 and April 30, 2008, respectively, and 4.80 to 1.0 thereafter.

The amendment executed on May 9, 2008 gives the Corporation until May 30, 2008 to reduce its CLR to 4.80 to 1.0 and to bring its Facility B Borrowing Base in compliance. The Corporation expects that it needs further amendments to give it additional time. While the lenders have not made any firm commitments, the Corporation is hopeful that it can come to terms with the lenders to provide a longer extension period with a reasonable schedule to reduce its debt and normalize its CLR. If the Corporation fails to obtain the required amendments, then the full amount of the loans would be repayable on demand.

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

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In light of the amendments and waivers, the Corporation has classified all amounts owing under the credit facility and Bridge Loan as a current liability. Assuming no principal payments or amendments to the loan agreements are made by June 30, 2008, in addition to the maturity of the Bridge Loan of \$20.0 million, the remaining principal outstanding on the revolving credit facility of \$106.1 million will become repayable in 36 equal monthly payments as follows: to December 31, 2008 - \$17.7 million; to December 31, 2009 - \$35.4 million; to December 31, 2010 - \$35.4 million and to December 31, 2011 - \$17.6 million.

To facilitate the Amendments, the Corporation incurred a fee of approximately \$1.1 million in respect of the revolving credit facility and agreed to pay the lender of the Bridge Loan a fee of \$2.7 million payable by June 30, 2008 and to issue to the lender 500,000 warrants to purchase common shares of the Corporation. The warrants have an exercise price of \$1.60 per common share and can be exercised at any time up to April 22, 2009. The cash fees will generally be payable out of future equity issues (but excluding the convertible debentures discussed in note 7) or other mandatory loan reductions, but no later than June 30, 2008 or upon the occurrence of an event of default. As at March 31, 2008, no portion of the cash fees had been paid and the liability of \$3.8 million was accrued. These fees were deducted from the related debt and are being amortized using the effective interest rate method over the period to June 30, 2008. A total of \$1.4 million was expensed as interest in the three months ended March 31, 2008. The Corporation valued the warrants at \$0.3 million using the following assumptions in the Black-Scholes model: average risk-free interest rate of 4.2%; average expected life of 1.5 years; expected volatility of 75% and a weighted average estimate of dividend yield of nil.

### **7 Convertible debentures**

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

The interest is payable semi-annually on each June 30 and December 31 provided that the first payment is due on June 30, 2008. An amount of \$1.3 million has been accrued as interest payable to March 31, 2008. The interest rate is initially 12% but will reduce to 10% if the Consolidate Leverage Ratio, as defined in the debenture agreements, of the Corporation is equal to or below 5.0 to 1.0. The Consolidated Leverage Ratio is similar to the CLR for the revolving credit facilities described in Note 7 except the consolidated debt used in the numerator includes the convertible debentures. The Corporation may elect to issue common shares to satisfy the principal amount at maturity.

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

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

As the convertible debentures are considered a compound financial instrument, the liability and equity components are presented separately. The debentures have been accounted for using the residual method resulting in an equity element stemming from the call option in the amount of \$2.8 million, net of related issue costs of \$0.2 million, being credited to shareholders' equity. The liability was valued using an estimated borrowing rate of 16%. Accretion expense related to the liability component of \$0.5 million was recorded in the three months ended March 31, 2008 (\$0.1 was recorded in the year ended December 31, 2007).

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### 8 Share capital

#### (a) Details of shareholders' equity

##### Authorized

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

Issued	March 31, 2008	December 31, 2007
	\$	\$
Common shares (b)	126.3	126.3
Warrants (c)	1.1	1.1
Equity element of convertible debentures (note 7)	2.8	2.8
Contributed surplus (d)	1.2	0.8
Retained earnings (Deficit)	(87.8)	(85.6)
	<u>43.6</u>	<u>45.4</u>

#### (b) Changes in issued shares

	March 31, 2008		December 31, 2007	
	Shares	\$	Shares	\$
Opening balance (1)	42,442,325	126.3	26,127,213	89.2
Issuance of Trust Units			5,225,442	13.6
<b>Value attributed to warrants on private placement</b>			-	(0.8)
Issuance of Trust Units			10,921,746	28.4
Unit issuance costs			-	(4.1)
Change in conversion ratio - Series B Exchangeable Shares			167,924	-
<b>Common shares outstanding</b>	<b>42,442,325</b>	<b>126.3</b>	<b>42,442,325</b>	<b>126.3</b>

(1) The opening balance for 2007 refers to the Trust Units and Series A and Series B Exchangeable Shares outstanding at that time that were converted to Common Shares on June 29, 2007 under the Plan of Arrangement as described below.

#### Issuance of Trust Units

On March 28, 2007 the Trust issued 5,225,442 Trust Units and 1,306,361 Trust Unit purchase warrants (with an exercise price of \$2.98 per Trust Unit and expiring September 28, 2008) for aggregate consideration of \$13.6 million. On that date, the Trust also issued 2,500,000 Trust Units in exchange for 2,500,000 Exchangeable Shares. The Trust valued the warrants at \$0.8 million using the following assumptions in the Black-Scholes model: average risk-free interest rate of 4.2%; average expected life of 1.5 years; expected volatility of 40% and a weighted average estimate of distribution yield of nil.

On April 13, 2007 the Trust completed a prospectus offering of 10,921,746 Trust Units for aggregate consideration of \$28.4 million. Concurrent with the transaction the Trust issued 1,000,000 Trust Units in exchange for 1,000,000 Exchangeable Shares.

#### Plan of Arrangement

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

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Additionally, all outstanding options to acquire Trust Units, whether vested or not, were exchanged for options of the Corporation under substantially the same terms and conditions, including, without limitation, the same "in the money" amount, if any.

<b>(c) Warrants</b>	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<b>\$</b>	<b>\$</b>
Opening balance	1.1	
Issuance of Trust Units (b)	-	0.8
Renegotiation of Bridge Loan (note 6)		0.3
Closing balance	1.1	1.1

<b>(d) Contributed surplus</b>	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<b>\$</b>	<b>\$</b>
Opening balance	0.8	0.7
Share-based compensation (note 9)	0.4	0.1
Closing balance	1.2	0.8

### **(e) Per share amounts**

The weighted average number of common shares outstanding for the three months ended March 31, 2008 was 42,442,325 basic and fully diluted shares respectively (2007 – 26,209,113 basic and fully diluted trust units respectively). All potentially dilutive instruments such as options, warrants and the convertible debentures are anti-dilutive.

## **9 Share-based compensation plan**

The Corporation has a Share Option Plan that provides incentive for directors, management and key employees that provides options to purchase shares. A total of approximately 4,244,233 options (being 10% of all outstanding shares) are available for grants under the plan.

At March 31, 2008, a total of 3,902,250 options are outstanding and expire at various dates up to 2013, at amounts that range from \$0.96 to \$13.87 per share. These options have a term of 5 years and allow the holder to exercise their options over a three-year vesting period with 40% exercisable on the first anniversary date, 30% on the second anniversary date and 30% on the third anniversary date. The options have an average remaining contractual life of 3.78 years and 2,024,200 options may be exercised during 2008.

	<b>Number of Shares</b>	<b>Weighted average exercise price \$/share</b>
<b>Total Outstanding January 1, 2007</b>		
	1,619,000	12.62
Granted	3,148,900	2.61
Exercised	-	-
Forfeited	(616,150)	8.77
<b>Total Outstanding December 31, 2007</b>	4,151,750	4.58
Granted	35,500	1.09
Exercised	-	-
Forfeited	(285,000)	4.93
<b>Total Outstanding March 31, 2008</b>	3,902,250	4.63

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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 (\$)
\$0.96 to \$1.99	932,000	4.44	1.77	-	-
\$2.00 to \$3.99	1,842,250	4.07	2.78	310,300	2.81
\$4.00 to \$6.99	119,000	3.71	6.09	47,600	6.09
\$7.00 to \$9.99	342,000	3.51	9.63	136,800	9.63
\$10.00 to \$13.87	667,000	2.56	10.92	431,800	10.76
<b>Total Outstanding March 31, 2008</b>	<b>3,902,250</b>	<b>3.78</b>	<b>4.63</b>	<b>926,500</b>	<b>7.69</b>

The Corporation recognized share-based compensation expense and contributed surplus of \$0.4 million for the three months ended March 31, 2008 (2007 - \$0.2 million) using the following assumptions in the Black-Scholes model: 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 (2007 - nil).

The corporation proposed changes to the Share Option Plan on April 5, 2008 (See note 16).

### 10 Related party transactions

In the normal course of business, during the three months ended March 31, 2008 the Corporation incurred general and administration expenses related to premises rent of \$0.3 million (2007 - \$0.3 million) and equipment and vehicle leases payments of \$0.2 million (2007 - \$0.3 million) charged by companies controlled by the chief executive officer of the Corporation ("CEO"). Amounts due to or from the related parties on the leases are non-interest bearing, unsecured and repayable on demand.

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

As part of the terms of the October 22, 2007 amendments to the Corporation's credit facility, in October 2007 the CEO loaned the Corporation \$2.0 million at a rate of 11%. This loan is secured by a promissory note repayable on a subordinated basis to the revolving credit facility and Bridge Loan (see note 7). Interest expense for 2008 includes \$0.1 million pertaining to this loan.

The total balance owing to the CEO and companies controlled by the CEO as at March 31, 2008 is \$5.2 million (2007 - \$5.4 million).

In connection with the operation of the Joint Venture (see Note 5), the Joint Venture engaged the services of director and incurred fees during 2008 of approximately \$51,000 (2007 - \$34,000) that are recorded in the Joint Venture.

### 11 Commitments and contingencies

#### Rigs under construction

On November 28, 2007 the Corporation completed a settlement with Sense EDM AS that, as previously reported, could potentially have obligated the Corporation to acquire four additional rigs and pay a cancellation fee for a fifth rig. Another party agreed to purchase the four additional rigs and the Corporation has been released from any obligation with respect to those rigs. The Corporation may still be required to pay a \$0.9 million cancellation fee for the fifth rig unless it or another buyer purchases that rig or a similar rig from Sense EDM by December 31, 2008.

#### Accounts receivable

On May 7, 2007 High Arctic Energy Services Limited Partnership (a subsidiary of the Corporation) filed a claim (the "Alberta Action") against Transeuro for approximately \$14.2 million plus interest and costs. The claim demanded payment for services rendered by High Arctic Energy Services Limited Partnership to Transeuro in late 2006 and early 2007 in connection with drilling a well at the Beaver River, British Columbia location of Transeuro.

Subsequent to the filing of its claim, the Corporation received a copy of a claim filed by Transeuro in the Supreme Court of British Columbia against a Dubai based subsidiary, High Arctic Energy Service LLC ("High Arctic Dubai"), asserting certain entities owned by the Corporation are in breach of various obligations. Among other things, the claim asserts that High

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Arctic Dubai has overcharged for the Beaver River services. There are further claims related to actions taken by High Arctic Dubai in Dubai in response to the failure of Transeuro to pay amounts owing for services rendered in Dubai, Armenia, Papua New Guinea and the Ukraine.

On October 2, 2007, a stay of the Alberta Action was granted on the basis that the action should be consolidated into the British Columbia action. On January 31, 2008 certain of its subsidiaries of the Corporation filed a Statement of Defence and a Statement of Counterclaim in the Supreme Court of British Columbia in respect of the legal dispute with Transeuro. In addition to the \$14.2 million related to Beaver River, High Arctic Dubai has made claims for services rendered in Dubai, Armenia, Ukraine and Papua New Guinea.

High Arctic Dubai has claimed about US\$2.3 million related to unpaid invoices for services provided and expenses incurred primarily related to personnel on the payroll of High Arctic Dubai providing services exclusively to Transeuro.

The claim in Armenia relates to the purchase and refurbishment of a drilling rig. High Arctic Energy Dubai supplied the funds to purchase the drilling rig and supplied parts and services to refurbish it with the intention that High Arctic Dubai would own the rig and use it to complete a drilling program for Transeuro in Armenia. Transeuro has denied High Arctic Dubai access to the rig and has been using the rig in its drilling program. High Arctic Dubai is seeking US\$5.4 million as compensation for the rig or delivery of the rig with compensation for its use.

The claim in Ukraine relates primarily to equipment supplied by High Arctic Dubai for use on a drilling rig contracted by Transeuro. High Arctic Dubai has claimed that it is owed rent on the equipment of US\$2.9 million to December 31, 2007 or is entitled to the value of the equipment of US\$2.1 million. The Corporation has recorded an impairment for the value of the equipment of \$0.9 million.

The claim in Papua New Guinea relates to an agreement to supply a heli-portable drilling rig to complete a drilling program for Transeuro. The Corporation completed construction of a heli-portable rig and related support equipment. The Corporation has undertaken steps to sell the rig and has included its estimated net realizable value of \$8.0 million in assets held for sale, resulting in impairment on assets held for sale of \$7.5 million (see note 4). High Arctic Dubai is seeking damages related to the impairment loss on the rig and cancellation of the drilling contract.

On February 29, 2008, Transeuro filed a Statement of Defence denying any liability for the amounts claimed by High Arctic. No date has been set for any hearings related to the litigation.

Due primarily to a lack of certainty regarding collectability related to the financial condition of Transeuro, the Corporation has provided for \$20.7 million in relation to the Transeuro amounts. These financial statements reflect a net receivable of approximately \$2.5 million plus recovery costs, which is less than the amount that the Corporation's management expects to ultimately collect.

### **Income taxes**

The Corporation has been informed by a customer in Turkmenistan that there is a possible exposure to the Corporation of US \$1.9 million for taxes in that jurisdiction and the customer has withheld this amount from amounts owed by it to the Corporation. Management believes that it has calculated and remitted all taxes properly due in Turkmenistan and the asserted tax exposure is without merit. However, given the uncertainty of the substance of the issue and the documentation requirements to resolve the matter, the Corporation has provided for the amount fully in its provision for income taxes for the year ended December 31, 2007.

### **Other**

A former employee of the Corporation has commenced a wrongful dismissal suit against the Corporation. A formal offer from the plaintiff to settle for \$0.5 million was rejected by the Corporation. The Corporation has not made any provision in its financial statements regarding this claim.

The Corporation is involved in a legal action over services rendered to it. The Corporation is disputing approximately \$0.1 million on the basis that the Corporation did not receive the full benefit of the contracted services and the former employee who contracted the services had a conflict of interest. The Corporation believes it has adequately accrued for any amount that may be owed.

The Corporation has posted a performance bond (that has been guaranteed by Export Development Canada or "EDC") of approximately US\$3.5 million in respect of its contract in Kuwait and would be liable to EDC for this amount if EDC was required to honour the bond as a result of a default by the Corporation in the performance of its obligations under the contract.

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### Lease obligations

The Corporation has entered into long-term premises and equipment leases with a related party, described in note 10, that expire in 2010. The premises leases contain an option to renew for a further five years. Future minimum lease payments as at March 31, 2008 are:

	\$
To March 31, 2009	1.0
To March 31, 2010	0.4
	<u>1.4</u>

### 12 Segmented information

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

	Three Months Ended March 31, 2008 \$	Three Months Ended March 31, 2007 \$
<b>Revenue</b>		
Canada	21.2	32.0
International		
Papua New Guinea	18.2	2.8
Mexico	1.5	-
United Arab Emirates	-	3.4
Saudi Arabia	-	2.5
Thailand / India	1.1	2.4
Kuwait/Qatar/Oman	2.1	0.7
Tunisia	2.1	-
Other	-	0.4
Total International	<u>25.0</u>	<u>12.2</u>
	<u>46.2</u>	<u>44.2</u>
	<b>As at March 31, 2008 \$</b>	<b>As at December 31, 2007 \$</b>
<b>Property and equipment, rigs and equipment under construction and assets held for sale</b>		
Canada	95.8	98.2
Mexico	15.4	10.9
Gulf Cooperation Council region	38.3	43.2
Papua New Guinea	15.1	8.3
	<u>164.6</u>	<u>160.6</u>

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### 13 Supplementary information

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
	\$	\$
<b>Operations</b>		
Accounts receivable, work-in-progress	2.0	(7.4)
Inventory and prepaid expenses	0.8	0.4
Accounts payable and accrued liabilities, income taxes payable and prepaid mobilization revenue	5.0	6.6
	<u>7.8</u>	<u>(0.4)</u>
<b>Investing</b>		
Accounts payable and accrued liabilities	0.3	(4.2)
<b>Financing</b>		
Distributions as a Trust	-	2.1
	<u>-</u>	<u>2.1</u>

### 14 Capital Disclosures

The Corporation's capital structure is comprised of Shareholders' Equity described in Note 8, Convertible Debentures described in Note 7, plus the Credit Facility and Bridge Loan (the "Credit Facility") described in Note 6.

	March 31, 2008	December 31, 2007
	\$	\$
Shareholders Equity	43.6	45.4
Convertible Debentures(1)	27.9	27.9
Credit Facility(1)	126.1	126.4
Cash and cash equivalents	(24.9)	(21.0)
<b>Total Capitalization</b>	<u>172.7</u>	<u>178.7</u>

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

The Corporation's strategy is to have a capital structure that will provide the capital to meet the growth objectives of its business and instill confidence with investors, creditors and capital markets. To accomplish this, the Corporation has determined that it must reduce its debt levels and increase the shareholder's equity to reduce its leverage ratios and provide adequate financial flexibility to meet the financial obligations, both current and long term. During 2006 and 2007, the Corporation increased its debt levels to fund the acquisition of new equipment and the expansion of its international business. Its current debt levels are well above prevailing industry standards and severely limit the financial flexibility of the Corporation.

The Corporation must significantly reduce its debt levels to meet the financial covenant tests imposed under the Credit Facility. Sales of non-performing and under utilized assets are being actively pursued to generate funds to pay down the Credit Facility. Future equity financings are a possibility to further reduce the risk associated with the current highly leveraged capital structure. Financing decisions for the foreseeable future will be governed largely by the requirement to

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reduce debt and manage the debt covenants imposed under the Credit Facility as more fully discussed in Note 6. Longer term, once the debt levels are reduced to acceptable levels, financing decisions will be based on the timing and extent of expected operating and capital cash outlays.

The Corporation monitors its debt levels and ability to service the debt using non-GAAP financial metrics with the primary one being the Consolidated Leverage Ratio or CLR. The CLR is defined in the revolving credit facility agreement as, in general terms, consolidated total debt excluding the Convertible Debentures, as defined, divided by the 12-month trailing adjusted consolidated earnings before interest, depreciation, amortization and taxes (EBITDA). The Corporation's objective is to reduce the CLR to a level of 2.75 to 1.0, or better, compared to the March 31, 2008 level of 6.33 to 1.0.

	Twelve Months Ended March 31, 2008	Twelve Months Ended December 31, 2007
	\$	\$
<b>Consolidated Total Debt</b>	<b>126.1</b>	<b>126.4</b>
Net Income (Twelve Month)	(76.8)	(69.6)
<b>Add (deduct):</b>		
Interest and financing	17.4	11.4
Income tax	6.6	5.3
Amortization	21.9	22.6
Gain on sale of property and equipment	(0.2)	(0.9)
Gain on sale of investments	(2.0)	(2.0)
Asset impairment	31.4	31.4
Foreign Exchange (gain)/loss, net	1.0	2.6
Stock based compensation	0.3	0.1
Write-down of long-term receivable (note 11)	19.5	20.6
Optimal Joint Venture	0.8	-
<b>Adjusted EBITDA (Twelve Month)</b>	<b>19.9</b>	<b>21.5</b>
<b>Consolidated Leverage Ratio</b>	<b>6.33</b>	<b>5.88</b>

The Corporation is in negotiations with its lenders to establish new CLR levels and other financial covenant tests going forward.

### 15 Financial Instruments and Risk Management

#### Fair value of financial assets and liabilities

The Company's cash and cash equivalents are designated as held-for-trading and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable and due from Optimal Drilling are designated as loans and receivables and recorded at amortized cost, which approximates fair value due to the short term nature of the instrument. Accounts payable and accrued liabilities, due to related party, the credit facility and bridge loan and convertible debentures are designated as other liabilities and are recorded at cost. The fair value of accounts payable and accrued liabilities and due to related party approximates their carrying values due to the short term nature of these instruments. The fair value of the credit facility and bridge loan and convertible debentures approximate their carrying values as the interest rates applicable to these instruments reflect current market rates.

#### 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.

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### Market Risk

Market risk, the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market rates, is comprised of the following:

#### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk as the revolving credit facility and Bridge Loan are floating rate credit facilities and will fluctuate in response to changes in market interest rates. For the period ending March 31, 2008, an increase or decrease in interest expense for each one percent change in interest rates on revolving credit facility and Bridge Loan would have amounted to \$0.3 million.

#### Foreign currency risk

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

For the quarter ended March 31, 2008, a 1% increase in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a \$45,000 decrease in earnings.

#### Commodity Price Risk

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

#### Credit Risk

Credit risk is the risk of a financial loss occurring as a result of a default by a counterparty on its obligation to the Corporation. The Corporation's financial instruments that are exposed to credit risk consist primarily of accounts receivable and the long-term receivable due from Transeuro. The Corporation mitigates credit risk by regularly monitoring its accounts receivable position. The Corporation also institutes detailed credit reviews prior to commencement of contractual arrangements and where practical uses export credit insurance provided by Export Development Canada.

#### 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 as well as monitoring the amount and age of balances outstanding. Accordingly, the Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has over 400 customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation has two significant customers. The first significant customer is a major Canadian exploration and production company which represents approximately 23.2% of the Corporation's revenue for the quarter ended March 31, 2008 and 18.6% of the Corporation's accounts receivable at that date. The services provided to this customer are distributed within this customer's diverse locations of operations within Canada, which management believes limits the risk of concentrating a significant portion of its revenue on this customer. Services are provided to the second significant customer in Papua New Guinea. This customer represents approximately 38.9% of the Corporation's revenue for the quarter ended March 31, 2008 and 34.8% of its accounts receivable at that date. Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with these customers.

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The aging of accounts receivables as at March 31, 2008 is as follows:

0 to 30 days	16.4
31 to 60 days	15.2
61 to 90 days	3.0
Greater than 90 days	4.5
Allowances	(1.5)
<b>Total</b>	<b>37.6</b>

The bad debt provision is based on an individual account by account analysis and the customer's prior credit history.

### Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Corporation seeks additional financing based on the results of these processes. The budgets are updated when required as conditions change. (see note 14).

The following are the contractual maturities of financial liabilities:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts Payable	30.7	-	-	-	30.7
Current Tax Payable	4.6	-	-	-	4.6
Convertible Debentures	-	-	27.9	-	27.9
Due to Related Parties	-	5.2	-	-	5.2
Bridge Loan	20.0	-	-	-	20.0
Credit Facility	17.7	70.8	17.6	-	106.1
<b>Total</b>	<b>73.0</b>	<b>76.0</b>	<b>45.5</b>	<b>-</b>	<b>194.5</b>

## 16 Subsequent events

On April 11 and May 9, 2008 the Corporation announced further amendments to its credit facility, as explained in Note 6.

On April 5, 2008, the board of directors approved:

(i) a new stock option plan (the "New Plan") to increase the maximum number of Common Shares reserved for issuance from 10% to a fixed number of Common Shares in an amount equal to 20% of the Common Shares issued and outstanding on the date such New Plan is adopted; and

(ii) a reduction of the exercise price of the current outstanding options to \$.75 per share being the market price of the Common Shares on April 04, 2008.

Both the New Plan and the re-pricing of the existing options are subject to the approval of the shareholders at the annual shareholders meeting to be held on May 22, 2008. Such shareholder approval must be obtained by a majority of the votes cast at a meeting of shareholders, other than votes attaching to shares beneficially owned by Insiders of the Corporation who are entitled to receive a benefit under the New Plan.

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On April 5, 2008, the Board of Directors conditionally granted a further 3,600,000 Options, subject to receipt of shareholder approval for the New Plan, at an exercise price of \$0.75 per Common Share which was the "market price" on April 4, 2008 (calculated by taking the five (5) day volume weighted average trading price) of the Common Shares on the TSX.