

High Arctic Energy Services Inc.



Annual Information Form

March 31, 2008

**For the Year Ended
December 31, 2007**

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NOTE REGARDING FORWARD LOOKING STATEMENTS

This annual information form (“AIF”) contains forward-looking statements. When used in this document, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “anticipate”, “believe”, “seek”, “propose”, “estimate”, “expect”, and similar expressions, as they relate to High Arctic Energy Services Inc. (the “Corporation” or “High Arctic”), are intended to identify forward-looking statements. Such statements reflect the Corporation’s current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation’s actual results, performance or achievements to vary from those described in this AIF. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this AIF as intended, planned, anticipated, believed, estimated or expected.

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

- expectations regarding the Corporation’s ability to raise capital and restructure its long-term debt obligations;
- commodity prices and the impact that they have on industry activity;
- estimated capital expenditure programs for fiscal 2008 and subsequent periods;
- projections of market prices and costs;
- factors upon which the Corporation will decide whether or not to undertake a specific course of operational action or expansion;
- world-wide supply and demand for oilfield services;
- competitive advantage and ability to compete successfully;
- amounts to be retained by the Corporation and its subsidiaries for capital expenditures;
- treatment under governmental regulatory regimes; and
- general economic conditions.

With respect to forward-looking statements contained in this AIF, the Corporation has made assumptions regarding, among other things:

- the Corporation’s ability to obtain equity and debt financing on satisfactory terms;
- the Corporation’s ability to market successfully to current and new customers;
- the Corporation’s ability to obtain equipment from suppliers;
- the Corporation’s ability to construct property and equipment according to anticipated schedules and budgets;
- the impact of competition; and
- the Corporation’s ability to attract and retain skilled employees.

The Corporation’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this AIF:

- liquidity risks, which may be exacerbated if the Corporation is unable to renegotiate its debt obligations and complete new equity financings on terms acceptable to the Corporation or at all;
- reduction in industry activity levels in Western Canada primarily due to a sustained period of lower natural gas prices and including impacts from changes to the Alberta royalty regime;

- changes in legislation and the regulatory environment, including uncertainties with respect to implementing the Kyoto Protocol;
- income tax matters including restrictions on non-resident ownership and the unanticipated tax and other expenses and liabilities of the Corporation;
- the world-wide demand for oilfield services in connection with the underbalanced drilling, workover and completion of oil and gas wells;
- volatilities in global supply and demand and market prices for oil and natural gas and the effect of these volatilities on the demand for oilfield services generally;
- general economic conditions in Canada, the United States, Mexico, Southeast Asia and the Middle East, including variations in exchange rates and interest rates;
- regional and international competition;
- risks inherent in foreign operations, including political and economic risk;
- liabilities and risks, including environmental liabilities and risks, global political stability and other risks, inherent in oil and gas operations;
- sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities, and skilled personnel;
- continuing success in developing and integrating technological advances and the ability to match advances of competitors;
- uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed;
- credit risks associated with customers in the oil and gas industry, including the inability of a significant customer of the Corporation to pay for goods and services that have been provided;
- the risks investors have through investing in a Corporation, including changes in taxation laws, share status and investment eligibility, the nature of shares and the ability to redeem them and shareholder limited liability;
- the cancellation of industry-standard type contract arrangements used by the Corporation including written contracts, that are cancellable by customers at any time, and verbal agreements; and
- the Corporation's inability to successfully address potential material weaknesses in internal controls or other control deficiencies that would affect its ability to report its financial results on a timely and accurate basis and to comply with disclosure and other requirements.

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

NON-GAAP MEASURES

EBITDA (being earnings before the deduction of depreciation, amortization, interest expense or income taxes), “market capitalization”, “Consolidated total debt” and “CLR” are not recognized measures under GAAP. Management believes that, in addition to net earnings, these items are useful supplemental measures of the Corporation’s performance prior to consideration of how operations are financed or how results are taxed. Investors are cautioned that these measures should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Corporation’s performance. The Corporation’s method of calculating these measures may differ from the methods used by other issuers and, accordingly, they may not be comparable to similarly titled measures used by other issuers.

GLOSSARY OF TERMS

"**250K Underbalanced Workover Rig**" or "**UB Rig**" means the Corporation's 250K underbalanced workover rig;

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, including the regulations promulgated thereunder;

"**Articles**" means the articles of incorporation of HAES dated March 27, 2007;

"**ASA**" means the *Securities Act (Alberta), together with related rules, regulations and instruments*;

"**ASC order**" means a discretionary order granted by the Alberta Securities Commission pursuant to an application by the Corporation, permitting the Placing and permitting existing holders of previously-issued Common Shares to trade their Common Shares, either through an exchange or a market outside Canada or to a person or company outside Canada, subject to the conditions set out therein;

"**BOP**" means blow-out preventer, the equipment installed at the wellhead to control pressures in the annular space between the casing and drill pipe or tubing during drilling, completion and workover operations;

"**Bridge Loan**" means a bridge facility credit agreement between the Corporation and GE Canada Asset Financing Holding Company dated July 12, 2007 for a \$20 million multi-draw loan facility;

"**By-laws**" means the by-laws of HAES dated March 27, 2007;

"**CLR**" means consolidated leveraged ratio, being the Consolidated Total Debt at the time of calculation divided by the 12 month trailing Consolidated EBITDA as at that time as determined in accordance with the Revolving Credit Facility;

"**Common Shares**" means the common shares of HAES;

"**Consolidated EBITDA**" means the adjusted consolidated earnings before interest, depreciation, amortization and taxes, all of which are determined in accordance with GAAP and the terms of the Revolving Credit Facility;

"**Corporation**" or "**High Arctic**" means High Arctic Energy Services Inc., together with its divisions and subsidiaries and its predecessor entities including i) for the period prior to June 29, 2007, the Trust and Holding Trust, and ii) for the period prior to the Reorganization, the Predecessor Company;

"**Cryogenic Liquid Nitrogen**" means the process of transporting, storing and pumping liquid nitrogen as a form of energy, in the construction of oil and gas wells;

"**Day Rate**" means the rate applicable to services performed on a day work rate basis;

"**Debenture Placing**" means the private placement of \$23.0 million of the Debentures which closed on November 13, 2007 and the subsequent placing of \$4.9 million of Debentures which closed on November 20, 2007;

"**Debentures**" means the unsecured convertible debentures due December 31, 2012 issued via the Debenture Placing;

"**Domestic Division**" means the operating business activities of High Arctic carried on in Canada;

"**Electronic-over-hydraulic**" means utilising electronic control devices and systems to operate or control hydraulic devices or systems;

"**Exchangeable Shares**" means, collectively, the Series A Exchangeable Shares and Series B Exchangeable Shares of Predecessor Company that prior to June 29, 2007 were exchangeable for Trust Units ;

"**Foothills Stand Alone Snubbing System**" means the second generation to the Stand Alone Snubbing System[®], designed for the completion and workover of medium to deep gas wells, in place of a workover rig/rig assist combination;

"**GAAP**" means Canadian generally accepted accounting principles;

"**General Partner**" means the managing general partner of High Arctic LP, being High Arctic Energy Corp.;

"**H₂S**" means hydrogen sulphide;

"**HAES**" means the High Arctic Energy Services Inc incorporated under the ABCA as 1310867 Alberta Ltd. on March 27, 2007;

"**High Arctic LP**" means High Arctic Energy Services Limited Partnership;

"**Holding Trust**" means High Arctic Holding Trust;

"**Hydraulic Workover Rig**" or "**HWR**" means a workover rig that moves the tubulars using hydraulic power;

"**Initial Public Offering**" means the initial public offering of the Trust Units and the concurrent listing of the Trust Units on the TSX;

"**International Division**" refers to the business activities of High Arctic carried on outside Canada;

"**JV Agreement**" means the joint venture and shareholder agreement between the Corporation and an affiliate of Schlumberger dated October 29, 2007, governing the scope and administration of the Optimal Joint Venture;

"**JV Entities**" means any company formed to carry out the Optimal Joint Venture, including Optimal Canada and Optimal Mexico;

"**Managed Pressure Drilling**" or "**MPD**" means the use of a Rotating Flow Control Head, low pressure surface recovery system, high pressure manifold and flare stack, in conjunction with a drilling, workover or service rig, to control the hydrostatic pressure of the wellbore during the construction of oil and gas wells;

"**Membrane Nitrogen Generation Units**" means High Arctic's units that are capable of producing nitrogen from air, via a processing system;

“N₂” means nitrogen;

“**Optimal Canada**” means Optimal Pressure Drilling Services Inc., incorporated in Alberta, owned 51% by the Corporation and 49% by Schlumberger;

“**Optimal Joint Venture**” means the joint venture formed pursuant to the JV Agreement, operating as a separate business division under joint management of HAES and Schlumberger;

“**Optimal Mexico**” means Optimal Pressure Drilling Services S.A. de C.V., a company owned 51% by the Corporation and 49% by Schlumberger;

“**OSL**” means Oil Search Limited;

“**PLC**” means programmable logic control, a ladder-logic program used to electronically manage mechanical devices;

“**Plan of Arrangement**” means the plan of arrangement completed on June 29, 2007 whereby Trust, the Holding Trust, the Predecessor Company and the Corporation completed a reorganisation by way of a court approved plan of arrangement which resulted in the reorganization of the Trust into an energy services company operated by the Corporation;

“**Predecessor Company**” means 1049447 Alberta Limited, known prior to June 29, 2007 as High Arctic Energy Services Inc.;

“**Preferred Shares**” means preferred shares in the capital of the Corporation issuable in series of which none have been issued;

“**Put & Call Agreement**” means the put & call agreement between the Corporation and Schlumberger dated December 31, 2007 under which Schlumberger may acquire the Corporation’s interest in the Optimal Joint Venture

“**RAPAD™ Rig**” means High Arctic’s 300K rack and pinion automated drilling rig;

“**Reorganization**” means the reorganization of the business of the Predecessor Company by the transfer of all of its assets and liabilities together with the assets and liabilities of High Arctic Energy to High Arctic LP, which reorganization was completed July 21, 2005, as part of the steps to complete the Initial Public Offering;

“**Revolving Credit Facility**” means a credit facility agreement, as amended, entered into by the Corporation with its lenders as amended and restated on October 22, 2007;

“**Rotating Flow Control Head**” or “**RFH**” means a mechanical device used in conjunction with drilling, workover or service rigs to divert flow from the wellbore annulus to surface recovery equipment in the construction of oil and gas wells;

“**Rig Assist**” means the use of hydraulic power to mechanically control tubulars while assisting drilling, workover and service rigs when working in a Snubbing application;

“**Schlumberger**” means Schlumberger Limited and its affiliates;

"Sense/EDM" means Sense EDM AS, a Norwegian manufacturer of drilling rigs;

"Shareholder" means a holder of Common Shares;

"Snubbing" means moving the pipe in a Well when the surface pressure and tubing/drill string are such that, if unrestrained, the pipe would be ejected from the wellbore;

"Stand Alone Snubbing System[®]" means High Arctic's Snubbing units designed to assist in the completion of shallow to medium gas wells, in place of a workover rig/rig assist combination;

"Stock Option Plan" means the stock option plan of the Corporation approved by the Shareholders on June 28, 2007;

"Tripping" refers to the process of removing and/or replacing pipe from the well when it is necessary to change the bit or other piece of the drill string, or when preparing to run certain tests in the wellbore;

"Trust" means High Arctic Energy Services Trust;

"Trust Proposal" means the federal government's proposal to apply a tax at the trust level on distributions of certain income from publicly traded trusts at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to unitholders;

"Trust Units" means trust units of the Trust;

"TSX" means the Toronto Stock Exchange;

"Underbalanced Drilling" or "UBD" means the practice of intentionally drilling a Well with borehole pressure less than the formation pore pressure, thus allowing formation fluid to more freely flow into the wellbore;

"Underbalanced Surface Separation Package" means the use of a Rotating Flow Control Head, high pressure surface separation system, high pressure manifold and flare stack, in conjunction with a drilling, workover or service rig, to separate drilling solids, wellbore fluids and hydrocarbons, while controlling the hydrostatic pressure of the wellbore, in the construction of oil and gas wells;

"Unitholder" means a holder from time to time of the Trust Units;

"Well" means a hole drilled into the ground in order to obtain petroleum, natural gas and petroleum products; and

"Workover" means the process of performing major maintenance or remedial treatments on an oil or gas well.

Unless otherwise indicated, references herein to "\$" or "dollars" are to Canadian dollars.

CORPORATE STRUCTURE

General

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 Trust on June 28, 2007. The Plan of Arrangement resulted in the Corporation acquiring the business of the Trust through the exchange of each outstanding Trust Unit or Exchangeable Share on a one-for-one basis, after accounting for the conversion factor applicable to certain Exchangeable Shares, for Common Shares of HAES.

The head office of the Corporation is at 8133 Edgar Industrial Close, Red Deer, Alberta T4P 3R4 and the registered office of the Corporation is at 4300 Bankers Hall West, 888 - 3rd Street S.W., Calgary, Alberta, T2P 5C5. The Corporation's telephone number is (403) 340-9825, the facsimile number is (403) 340-1047 and the website is www.haes.ca. The Corporation maintains administration offices in Dubai, United Arabs Emirates and Papua New Guinea.

Reorganisation of HAES from a Trust into a Corporation

HAES was incorporated under the ABCA on March 27, 2007 as 1310867 Alberta Ltd. On June 29, 2007, the Trust, the Holding Trust, the Predecessor Company and HAES completed a reorganisation by way of a court approved plan of arrangement which resulted in the reorganization of the Trust into an energy services company operated by the Corporation all as approved by the holders of the Trust Units at a meeting of the Unitholders on June 28, 2007. Upon completion of the Reorganization, the Corporation acquired, directly or indirectly, all of the assets and assumed all of the liabilities of the Trust. The Corporation also retained the management team and personnel of the Trust. On June 29, 2007, the Predecessor Company amended its articles to change its name to 1049447 Alberta Ltd., to enable HAES, as the new publicly traded entity, to change its name to "High Arctic Energy Services Inc."

Rationale for the Reorganization

As a result of certain favourable tax treatment, the trust structure had become a common ownership structure in the Canadian energy sector and other sectors. However, on October 31 2006, the Minister of Finance for Canada announced the federal government's proposal to apply a tax at the trust level on distributions of certain income from publicly traded trusts at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to unitholders.

Management and the Directors believed that the Plan of Arrangement provided a number of benefits for the holders of securities in the Trust, including:

- (a) it was anticipated that a corporation would have greater access to various types of capital required to reduce indebtedness, fund growth capital expenditures and improve the stability and sustainability of the business model;
- (b) an energy services company has the flexibility to reinvest a majority of its cash flow into its capital build programme which could result in an accelerated growth profile, whose flexibility was limited under the Trust structure;
- (c) as a growth-oriented energy services company, the Corporation can avoid the "safe harbour" constraints set out in the Trust Proposal, under which the Trust could not issue, for purposes other than to replace debt that existed at October 31, 2006, more than

approximately \$4 million of additional equity before 2008, and in each of 2008, 2009 and 2010 would be limited to additional equity growth of \$50 million; and

- (d) converting to a corporate structure eliminated the risks and uncertainty facing the Trust as a result of the Trust Proposal.

In contemplation of the conversion to a corporation and in order to conserve cash for its capital needs, the Trust suspended all distributions after January 2007. As a corporation, rather than a trust, there is no longer a tax benefit in making distributions to its shareholders. Therefore, the Corporation does not anticipate paying dividends in the foreseeable future.

Intercorporate Relationships

As at the date hereof, the significant subsidiaries of the Corporation are as set forth below.

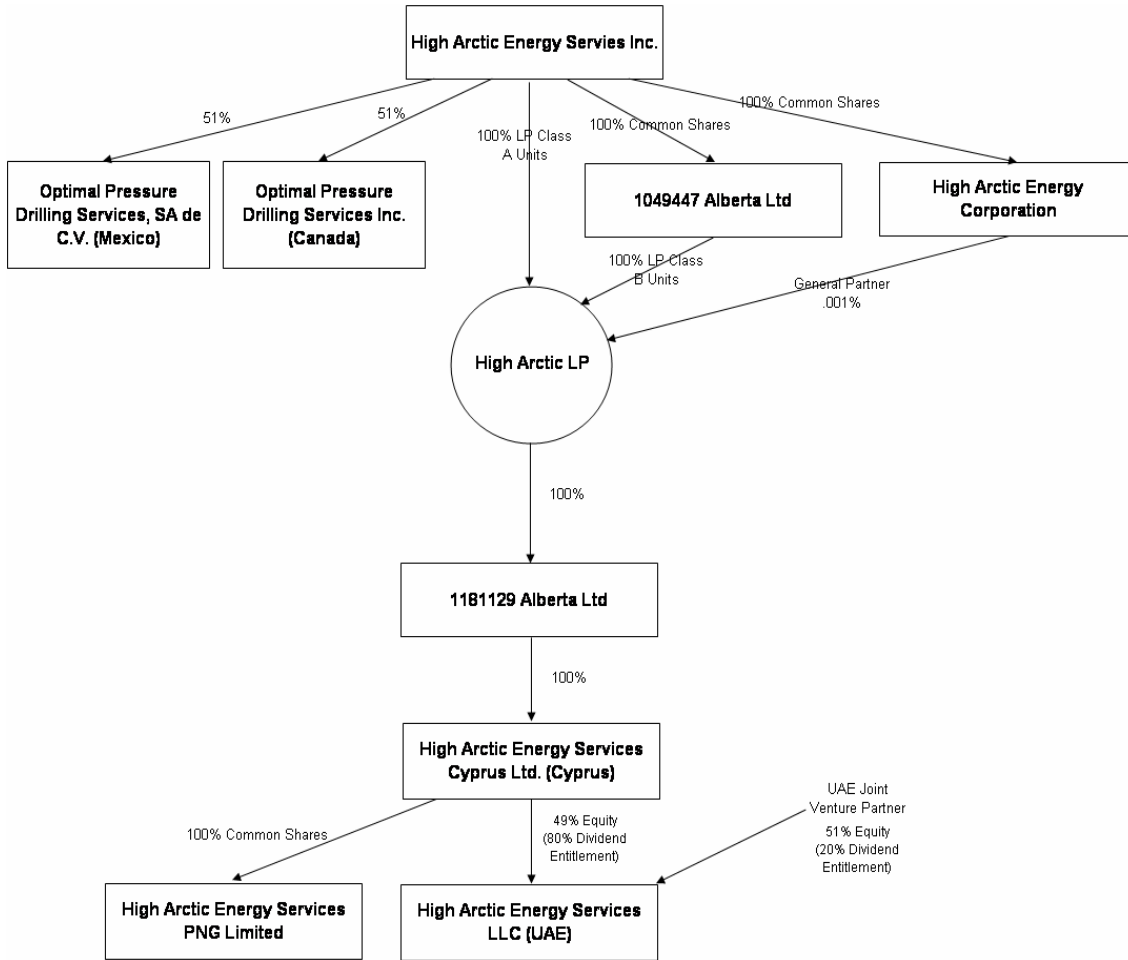
	Percentage of Voting Securities (directly or indirectly)	Physical Location	Jurisdiction of Incorporation or Formation
1049447 Alberta Ltd.	100%	Red Deer, Alberta	Alberta
High Arctic Energy Corporation	100%	Red Deer, Alberta	Alberta
High Arctic Energy Services Limited Partnership	100%	Red Deer, Alberta	Alberta
1181129 Alberta Ltd.	100%	Red Deer, Alberta	Alberta
High Arctic Energy Services Cyprus Limited	100%	Nicosia, Cyprus	Cyprus
High Arctic Energy Service LLC ⁽¹⁾	49%	Dubai, United Arab Emirates	United Arab Emirates
High Arctic Energy Services PNG Limited	100%	Port Moresby, Papua New Guinea	Papua New Guinea
Optimal Pressure Drilling Services, SA de C.V.	51%	Villahermosa, Mexico	Mexico
Optimal Pressure Drilling Services Inc.	51%	Calgary, Alberta	Alberta

Notes:

- (1) High Arctic Energy Services Inc. owns 49% of the issued and outstanding shares, is entitled to 80% of the dividends and has voting control of High Arctic Energy Service LLC.

Organization Structure of the Corporation

The following diagram sets out the relationship among the Corporation and its material subsidiaries.



GENERAL DEVELOPMENT OF THE BUSINESS

History

From its inception as a private company in 1993, the initial focus of High Arctic was on MPD technology and well control and Snubbing services in Alberta. In the early to mid 1990s, growth was achieved through development of new equipment primarily used in Snubbing and through the acquisition of several smaller companies. The Corporation started with Rig Assist units focused on Snubbing applications. It expanded into Stand Alone Snubbing Systems® units that allowed the Corporation to provide completion and Workover services on shallow gas wells more efficiently by eliminating the need for a conventional workover rig. The Stand Alone Snubbing Systems® name was used to describe the ability to operate the snubbing unit independently without the aid of a workover rig.

The Corporation began its international operations through a contract for one Stand Alone Snubbing Systems® unit in Argentina in 1998 and opened its first international office in Dubai during 2001. HAES initially focused its international efforts on the Middle East and Caspian Sea regions and hired an internationally-based manager to pursue international opportunities that it believed were available for Canadian companies that could supply new, state-of-the-art underbalanced equipment and services.

In 2001, HAES's largest HWR, the "Banff", was built in Alberta and transported to Dubai where it operated under a two-year call-out contract for a company in Dubai. Also in 2001, the Corporation received its certification from the International Standards Organization under its ISO 9001: 2000 Standard. The Corporation saw this certification as an important part of implementing appropriate quality and operating systems to meet the needs of its customers, particularly the international customers. A competency-based training program was implemented as a key requirement of maintaining the ISO certification and in providing properly trained personnel for the business.

In 2003, another HWR, the "Nordegg", was purchased and mobilized to the Caspian Sea to provide workover services on offshore platforms where traditional jack up rigs had proved unsatisfactory.

As additional equipment and manpower were required to satisfy HAES' new international customer base, it set up a manufacturing facility in Dubai where another HWR, the "Cadomin", was completed in 2005 for initial use in the Arabian Sea. The Cadomin was designed to be modular in design, affording accessibility to small offshore platforms, and required substantially smaller marine support vessels. Underbalanced Surface Separation Package, Rotating Flow Control Heads and the first 250K UB Rig were added to the domestic product lines in 2005, expanding HAES's offerings of underbalanced services.

In July 2005, HAES completed a reorganisation into an unincorporated investment trust and made an initial public offering in Canada. Pursuant to the Initial Public Offering, 8,400,000 Trust Units were issued at a price of \$10.00 per unit for gross proceeds of \$84,000,000. The Trust Units were admitted to trading on the TSX on July 21, 2005 under the ticker symbol "HWO.UN".

The proceeds of the Initial Public Offering, along with the proceeds received under a revolving credit facility, allowed the Corporation to undertake an equipment new build program. The new build program included the acquisition of two more 250K UB Rigs and three RAPAD™ Rigs that were delivered in 2006 and early 2007, the conversion of five Rig Assist units into Foothills Stand Alone units and the purchase of N₂ assets. In addition, the Corporation acquired the air drilling assets of Alberta Mobile Air Services 1998 Inc. in September 2005 and purchased two Snubbing units from Kamber Well Service Ltd. in February 2006.

The 250K UB Rigs and RAPAD™ Rigs were acquired from Sense EDM under a rig purchase agreement dated July 21, 2005 that allowed it take up to fifteen rigs. The Corporation also purchased 20% of the shares of Engineering & Drilling Machinery ABS, the supplier of the rigs, which subsequently merged with another company creating Sense EDM. The Corporation then held 10% of the merged entity. As a result of financial constraints, the Corporation was only able to take up five rigs (in addition to the one 250K UB Rig acquired in 2005 under an agreement dated May 15, 2004 with Sense EDM) and sold its shares in Sense EDM in April 2007. In November 2007, the Corporation completed a settlement with Sense EDM AS that releases the Corporation from any obligation with respect to purchase further rigs except the Corporation may still be required to pay a \$0.9 million cancellation fee for a rig unless it or another buyer purchases that rig or a similar rig from Sense EDM by December 31, 2008.

Developments of High Arctic in 2007

During 2007, the Corporation significantly expanded its international operations. It mobilized one RAPAD™ Rig to Thailand and then on to India, and another RAPAD™ Rig was mobilized to Tunisia. In addition, the Corporation signed a series of contracts with OSL for the lease and operation of two heli-portable drilling rigs and related support equipment in Papua New Guinea. The Corporation also entered into the Optimal Joint Venture with Schlumberger to provide UBD and MPD services to the worldwide energy industry. The Optimal Joint Venture commenced operations in Mexico on January 1, 2008 by taking over the activities that had been conducted there by the Corporation since August 2007.

Effective February 1, 2007, the Corporation entered into an eighteen month drilling services contract with Oil Search Limited (OSL) to operate a heli-portable drilling rig in Papua New Guinea. Following, the refurbishment, mobilization and commissioning of that rig, designated as Rig 101, it spudded the first well in October, 2007. During 2007 the Corporation provided project management services relates to the construction of a second heli-portable drilling, designated as Rig 103, which was mobilized to Papua New Guinea and spudded its first well on December 31, 2007, under a three year drilling services contract with OSL the term of which began on December 31, 2007. The heli-portable rigs are leased by the Corporation from OSL under leases with a term that matches the term of the related drilling services contract. The Corporation also provides drilling support equipment, such as camps, rig matting, cranes, forklifts and trucks, on a Day Rate rental basis and drilling support personnel on a Day Rate basis all under a drilling support contract with a term tied to the term of the drilling services contracts.

In August, 2007, the Corporation commenced operations in Kuwait under a contract with a 5 year term. At December 31, 2007, the Corporation had two HWR units, the Banff and the Nordegg, deployed in Kuwait.

In June 2007, RAPAD™ Rig 3 was moved into India following completion of a contract in Thailand. The first contract in India was completed in November 2007. In December 2007, another drilling services contract was signed with a Canadian entity and RAPAD™ Rig 3 spudded the first well under that contract in February, 2008 on completion of the mobilization to the operating area.

In August 2007, RAPAD™ Rig 2 was mobilized to Tunisia from Canada and commenced operations in Tunisia in October 2007. The Corporation has one year Day Rate contracts with subsidiaries of two Canadian entities under which the Corporation has a guaranteed minimum of 180 operating days in the first six months of operations.

Optimal Joint Venture Agreement with Schlumberger

On October 29, 2007, the Corporation entered into the JV Agreement with an affiliate of Schlumberger for the purpose of providing UBD services and MPD services to the global worldwide upstream oil and gas industry. The Optimal Joint Venture was formed effective December 31, 2007 at which time it acquired certain business assets of the Corporation for an aggregate purchase price of US\$18.2 million and commenced its business activities on January 1, 2008.

The Optimal Joint Venture is focused on providing UBD and MPD services for integrated projects managed by Schlumberger outside Canada and the United States. Schlumberger is a leading supplier of technology, project management and information solutions to the oil and gas industry. The integrated projects provide the scale required to properly deploy the equipment and demonstrate the benefits of the UBD and MPD techniques. The joint venture allows Schlumberger to participate in the UBD and MPD business and to gain preferential access, on commercial terms, to the services offered by the joint venture.

The Optimal Joint Venture is currently conducted through several legal entities, including Optimal Canada and Optimal Mexico. The JV 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 Optimal Joint Venture to fund the purchase of equipment required for the business and working capital. The Corporation's portion of the initial cash commitment is US\$33.2 million of which US\$18.9 million was paid on December 31, 2007, US\$7.1 million was paid on March 25, 2008 and the balance of US\$7.2 million is expected to be paid in June, 2008. Schlumberger will contribute proportionate amounts based on its 49% interest in the Optimal Joint Venture.

Issue of Subordinated Convertible Debentures

During November 2007, the Corporation closed the Debenture Placing and raised \$27.9 million of 12 per cent, unsecured convertible debentures due December 31, 2012.

Amendment of Credit Facilities

On October 29, 2007, the Corporation agreed with its senior lenders to certain amendments to its existing credit facilities effective October 22, 2007. The amendments to the Revolving Credit Facility and Bridge Loan extended the maturity date, adjusted the interest rate, relaxed the borrowing base for a period to permit additional loan draws of up to \$8 million, altered the financial covenant tests and imposed fees for the amendments.

Developments Subsequent to Year End

On February 1, 2008 the Corporation announced that certain of its subsidiaries and affiliates had filed a Statement of Defence and a Statement of Counterclaim in the Supreme Court of British Columbia in respect of its ongoing legal dispute with Transeuro Energy Corp. The filings serve to consolidate the previously announced claim filed by High Arctic Energy Services L.P. in the Court of Queen's Bench of Alberta on May 7, 2007 with the claim filed by Transeuro Energy Corp. on that same date in the Supreme Court of British Columbia. The dispute relates to services provided by subsidiaries of High Arctic in Canada, Armenia, Ukraine and Papua New Guinea.

High Arctic Energy Services LP provided drilling services in late 2006 and 2007 to Transeuro at a well location in the area of Beaver River, British Columbia. The claim for unpaid services is \$14.2 million. Transeuro has asserted, among other things, that it has been overcharged for the services.

The claims outside of Canada relate to services provided by High Arctic Energy Service LLC, a subsidiary located in Dubai, United Arab Emirates. In addition to the claims described below, High Arctic Energy Service LLC has claimed approximately US\$2.3 million related to unpaid invoices for services provided and expenses incurred primarily related to personnel on the payroll of High Arctic providing services exclusively to Transeuro. The claim in Armenia relates to the purchase and refurbishment of a drilling rig. High Arctic Energy Service LLC supplied the funds to purchase the drilling rig and supplied parts and services to refurbish it with the intention that High Arctic would own the rig and use it to complete a drilling program for Transeuro in Armenia. Transeuro has denied High Arctic access to the rig and has been using the rig in its drilling program. High Arctic Energy Service LLC 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 Energy Service LLC for use on a drilling rig contracted by Transeuro. High Arctic Energy Service LLC 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 claim in Papua New Guinea relates to an agreement to supply a heli-portable drilling rig to complete a drilling program for Transeuro. High Arctic proceeded with the purchase of a new build rig and reported an impairment loss of \$7.5million in its December 31, 2007 financial statements. High Arctic Energy Service LLC is seeking damages related to the impairment loss on the rig and cancellation of the drilling contract.

In March, 2008, the Corporation signed a contract with OSL to mobilize the Cadomin to Papua New Guinea to perform HWR services under a one year contract with extension options.

BUSINESS OF THE CORPORATION

General

The Corporation's corporate head office is located in Red Deer, Alberta with additional Alberta offices located in Grande Prairie and Calgary. International offices are located in the United Arab Emirates, Papua New Guinea and Cyprus.

The Corporation's principal focus is to engage in the global oilfield services business by providing specialized drilling and production services, equipment, design and development and technical support and training to the Canadian and International oil and gas industry. The Corporation's business plan is focused on providing high quality services to its customers by supplying leading edge technology and knowledgeable, well-trained personnel that provide solutions to both its customers and the industry.

The current focus of HAES is to expand its international business through the underbalanced services of the Optimal Joint Venture and the expansion of its services in Papua New Guinea as well as maintaining its focus on well control services in Canada.

As described previously in this document, on October 29, 2007, the Corporation entered into the Optimal Joint Venture with an affiliate of Schlumberger. The Optimal Joint Venture commenced its business operations on January 1, 2008. The Optimal Joint Venture provides UBD and MPD services to the global energy industry and is expected to be an increasingly important part of the Corporation in 2008 and later years.

Product / Service Lines

The Corporation's operations can be divided into two main Product / Service lines; Underbalanced Services and Contract Drilling / Workover Services.

Underbalanced Services

The Corporation's underbalanced services are comprised of two main operations.

- 1) The management of the downhole drilling mediums (commonly referred to as drilling fluids) and well bore pressures that is carried on by the Optimal Joint Venture.
- 2) The operation of the Snubbing units that are used for moving downhole tubulars in and out of the Well that is carried on by the Corporation outside of the Optimal Joint Venture.

In conventional overbalanced drilling, the drilling fluid is designed to provide a weight that is greater than the formation pressure to prevent the flow of hydrocarbons into the wellbore that could contaminate the drilling fluids and create a risk of an uncontrolled release of the hydrocarbons to the atmosphere. UBD refers to the practice of intentionally drilling a Well with borehole pressure less than the formation pore pressure, thus allowing formation fluid to more freely flow into the wellbore. Specialized well control equipment is used to induce and control the formation fluid influx at the surface during drilling or Workover operations. A hydraulically-operated or rack and pinion combination rig, in conjunction with a specialized BOP, are the essential pieces of equipment making this process possible.

UBD also benefits Workover operations. Traditional Workover operations require the pressure in a Well to be neutralized or killed prior to performing services on the Well. Some Wells can be damaged if a Well is killed prior to operations as the fluids used in the process may cause the flow characteristics of

the Well to be impaired. Snubbing units have been developed to permit the operations to be completed without first killing the Well.

UBD has become an important technology in the global energy sector, especially in complex formations, shallow gas wells and depleting reserves regions. UBD reduces mechanical damage and chemical damage to a producing formation, both of which can restrict oil or gas flow into the wellbore, by not introducing drilling fluids which typically invade the formations. The reduction of formation damage, especially in complex formations and low pressure formations, is the key advantage of UBD. In addition, UBD provides the ability to produce low pressure smaller reservoirs that were not economical to drill in a traditional overbalanced manner due to production losses and formation damage associated with this manner of drilling. Formation damage refers to a restriction which reduces the ability of the reservoir oil or gas fluids to flow into the wellbore. When formation damage occurs while drilling overbalanced, there are a number of stimulation techniques that are available for overcoming flow impairment into the wellbore. These stimulation techniques work well with vertical wells, regardless of depth, and for shallow damage in horizontal wells. However, deeper well damage is often difficult to remove in long horizontal sections and stimulation techniques are prohibitively expensive.

UBD requires techniques to reduce the weight of the drilling fluids. Nitrogen is commonly used to effectively lighten the drilling fluid. A benefit of nitrogen is that it is a lighter drilling medium and has less contaminants than traditional drilling fluids. These factors are important in protecting the reservoirs from contamination of the drilling fluids but can also lead to the more efficient drilling through faster drilling penetration rates. Nitrogen can be used in conjunction with drilling fluid or strictly as a gas drilling medium.

The UBD activities associated with the management of the drilling mediums are carried on in the Optimal Joint Venture. The Optimal Joint Venture uses nitrogen generating units at the well site to generate the required nitrogen through a membrane nitration system. The large scale application of nitrogen based drilling mediums in Mexico is expected to lead to improvements in the drilling techniques and efficiency. The Corporation expects that the Optimal Joint Venture will be able to use the technology and knowledge gained to expand into other countries.

As part and parcel of the evolution of this underbalanced technology, a new term – "Managed Pressure Drilling" or MPD – has evolved. The International Association of Drilling Contractors (IADC) defines MPD as "an adaptive drilling process used to precisely control the annular pressure profile throughout the wellbore. The objectives are to establish the downhole pressure environment limits and to manage the annular hydraulic pressure profile accordingly." The tool kit includes overbalanced, at balance and underbalanced techniques that can be adapted to solve problems in drilling performance, to reduce formation damage and/or facilitate improved reservoir management. MPD activities of the Corporation are carried on exclusively in the Optimal Joint Venture.

Underbalanced well drilling and workover operations cannot be conducted successfully without the use of Snubbing equipment. Snubbing is the process of moving the tubing and drill pipe into and out of a wellbore under pressure. The ability of the producing formation to flow in a permanently pressure-controlled environment is a significant advantage in addressing successfully common production problems in fluid sensitive formations, low pressure reservoirs, naturally fractured reservoirs and low permeability sandstone reservoirs. In such formations and reservoirs, Snubbing offers the proven ability to enhance the operational and economic performance of low-pressure gas wells that may not otherwise be able to produce gas as a result of introduction of the fluid used to kill a well and the over-pressurization of deep gas well workovers where sandstone formation clays are susceptible to swelling.

Snubbing operations also offer the ability to maintain production during part or all of well service work, increase well production rates, reduce completion costs and eliminate the costs of fluid purchase, well remediation and disposal costs.

The use of a Rotating Flow Control Head during drilling operations in conjunction with a Snubbing unit enables pipes to be pulled safely while the well is flowing, permitting the replacement of a downhole motor or tool assemblies. Without the Rotating Flow Control Head/Snubbing rig combination, the well would have to be killed with fluids to offset the formation pressure, which would risk contaminating the formation with mechanical and/or chemical damage during drilling operations. The Corporation has transferred all of its Rotating Flow Control Heads to the Optimal Joint Venture for use in its UBD and MPD business.

Contract Drilling / Workover Services

The Corporation's other main activity is contract drilling and Workover services on both conventional wells and underbalanced wells. The contract drilling and Workover services are generally conducted under a day work contract where the Corporation charges a fixed Day Rate per day of services regardless of the time it takes to complete the services. The contract generally has an operating rate while the equipment is operating and a reduced rate for other periods such as when the equipment is on standby waiting for orders or is moving between well locations. The Corporation ordinarily seeks to avoid the costs arising from downhole risks such as damage to the reservoir, blow outs, loss of hole and loss of equipment in the hole, other than limited liability in some instances for gross negligence. The customer also generally takes on the responsibility for well site reclamation and environmental damage associated with drilling fluids and pollution originating below the earth's surface.

The contract duration can vary from a few days on a single well to multiple year, multiple well contracts. In Canada, the contracts are generally on a well-by-well basis. Generally the Corporation's Snubbing units used in Workovers operate on a well to well call-out basis where the customer calls for a unit and the services can be for as little as a few hours. In the international market, the rigs will generally be contracted for longer periods because of the cost of mobilizing to what can be remote locations and the often limited equipment availability that make call outs not practical. The Corporation's international contracts range from six months to five years. Often the contracts have extension periods beyond the primary term, as well as price adjustment clauses.

Operating Divisions

The Corporation has three operating divisions, the International Division, the Optimal Joint Venture and the Domestic Division, each of which offers some or all of the following products and services:

RAPAD™ Drilling Rigs	250K Underbalanced Workover Rigs
Hydraulic Workover Rigs	Heli-portable Drilling Rigs
Rig Assist Snubbing Units	Stand Alone Snubbing Systems®
Foothills Stand Alone Snubbing Systems	Managed Pressure Drilling Packages
Underbalanced Surface Separation Packages	Air Drilling Services
Membrane Nitrogen Generation Units	Cryogenic Liquid Nitrogen Pumping services
Drilling Support Rentals	Rotating Flow Control Heads

Consolidated revenue for the three operating divisions for the years ended December 31, 2007, 2006 and 2005 are as follows.

	Year ended 31 December 2007		Year ended 31 December 2006		Year ended 31 December 2005	
	Revenue in \$millions	% of Total Revenue	Revenue in \$millions	% of Total Revenue	Revenue in \$millions	% of Total Revenue
International Division ⁽²⁾	\$65.5	47.2%	\$19.0	15.3%	\$18.5	22.4%
Optimal Joint Venture ⁽¹⁾	-	-	-	-	-	-
Domestic Division	\$64.6	52.8%	\$104.8	84.7%	\$64.2	77.6%
Total	\$130.1	100%	\$123.8	100%	\$82.7	100%

Notes:

- (1) The Optimal Joint Venture commenced business on January 1, 2008. Accordingly, it has no history of operations.
- (2) Includes revenue from Mexico operations prior to the formation of the Optimal Joint Venture.

International Division

Within the International Division, the Corporation has the following product lines which it provides to its current and prospective customers in the current or recently completed operating areas of India, Kuwait, Oman, Papua New Guinea, Qatar, Saudi Arabia, Tunisia and the United Arab Emirates:

Primary Services

RAPAD™ Rigs
Hydraulic Workover Rigs
Heli-portable Drilling Rigs
Snubbing Units

Secondary Services

Air Drilling Services
Drilling Support Equipment Rentals

Optimal Joint Venture

The Corporation is a 51% owner of the Optimal Joint Venture created to provide UBD and MPD services to the global energy business. Within the Optimal Joint Venture, the Corporation has the following product lines which it provides to a current customer, an affiliate of Schlumberger in Mexico:

Primary Services

Surface Separation Packages
Membrane Nitrogen Generation Units

Secondary Services

Choke Manifolds
Rotating Flow Control Heads

The Optimal Joint Venture commenced business on January 1, 2008 following the Corporation's contribution on December 31, 2007 of its assets comprising the UBD and MPD activities for aggregate cash consideration of US\$18.9 million.

Domestic Division

Within the Domestic Division, the Corporation has the following product lines and services which it provides to its customers in the operating areas throughout Canada:

Primary Services

250K Underbalanced Workover Rigs
Snubbing Units
Stand Alone Snubbing Systems®
Foothills Stand Alone Snubbing Systems
Rig Assist Snubbing Units
RAPAD™ Rigs
Hydraulic Workover Rigs

Secondary Services

Air Drilling Services
Cryogenic Liquid Nitrogen Pumping Services
Specialized Drilling Tool Rentals

Description of Equipment and Services

The following chart sets forth a list of High Arctic's existing major equipment as at December 31, 2007.

Type of Equipment	Units Currently Owned	Domestic	International
RAPAD™ Rig	3	1	2
250K UB Rig	3	3	-
Hydraulic Workover Rig	4	1	3
Rig Assist Snubbing Unit ⁽¹⁾	7	6	1
Stand Alone Snubbing System™	10	10	-
Foothills Stand Alone Snubbing System	5	5	-
Managed Pressure Drilling Package ⁽²⁾	8	-	8
Air Drilling System	2	2	-
Underbalanced Surface Separation Package ⁽²⁾	2	-	2
Membrane Nitrogen Generation Unit	8	-	8
Cryogenic Liquid Nitrogen Pumper	11	11	-
Cryogenic Liquid Nitrogen Bulker	5	5	-
Rotating Flow Control Head ⁽²⁾	7	-	7

Note:

- (1) As of December 31, 2007 three (3) Rig Assist Snubbing Units were under a rental agreement and working in the USA.
(2) These units are part of the Optimal Joint Venture.

RAPAD™ Rig

The RAPAD™ Rig is the second generation to the 250K UB Rig technology introduced by High Arctic in 2005. The RAPAD™ Rig is a multi-purpose, highly mobile, land-based rig. It has the ability to spud, drill and complete a Well, both conventionally and underbalanced.

The RAPAD™ Rig is a specialised “rack and pinion mast-type” rig that can lift 113.4 tonnes (250,000 pounds) in a conventional manner and act as a conventional 54.4 tonne (120,000 pound) Snubbing unit. The RAPAD™ Rig is a self-contained unit capable of drilling, Workover and Snubbing operations that are currently being conducted by a conventional drilling rig, followed by a conventional service rig and Snubbing unit combination.

The RAPAD™ Rig allows for a number of BOP configurations to be added, while maintaining standard drilling and Tripping capabilities. The RAPAD™ Rigs utilise a PLC electronic-over-hydraulic operating system that provides more accurate control and monitoring of the drilling and Workover operations. The RAPAD™ Rig has a smaller footprint than conventional drilling and service rigs, allowing operations in tighter locations and providing minimal land disturbance.

Currently the Corporation owns three RAPAD™ Rigs; two are under one-year Day Rate contracts in India and Tunisia and the third is located in Canada. RAPAD Rig 3 was moved into India in June 2007 following completion of a contract in Thailand. The first contract in India was completed in November 2007. In December 2007, a contract was signed with a Canadian entity and RAPAD Rig 3 is spudded the first well under that contract in February 2008. The contract is for a one year term from start of drilling operations on the first Well location, with extension options for up to four additional six month periods, but it can be terminated without cause on 30 days' notice.

RAPAD Rig 2 was mobilized to Tunisia from Canada in August 2007 and commenced operations in Tunisia in October 2007. The Corporation has one year Day Rate contracts with two subsidiaries of Canadian entities that guarantee a minimum of 180 operating days in the first six months of operations. The customers have the option on a second year by guaranteeing a further 180 operating days in that second year. The Corporation plans to market the rig to other companies operating in Tunisia for any unutilized periods.

The third RAPAD™ Rig, RAPAD Rig 1, is located in Canada and marketed on a well by well basis.

250K Underbalanced Workover Rig

A significant focus of HAES has been to use underbalanced technology as a production enhancement service. The 250K UB Rig is the third generation to the Stand Alone Snubbing System® technology. The 250K UB Rig was primarily designed to provide a complete range of drilling and Workover operations, including Snubbing operations, on deeper and more complex well designs. It has the capability to drill underbalanced, Workover, complete and snub new and existing well bores to a depth of 3,500 metres (11,483 feet). The 250K UB Rig is primarily a mobile, land-based rig that rigs up faster, trips faster and mobilizes/demobilizes more efficiently than the HWR (described below).

The 250K UB Rigs are specialised "rack and pinion mast-type" rigs that can lift 113.4 tonnes (250,000 pounds) as a conventional Workover rig but also act as a conventional 54.4 tonne (120,000 pound) Snubbing unit. The 250K UB Rig is a self-contained unit capable of all UBD, Workover and Snubbing operations that are currently being conducted with the conventional Stand Alone Snubbing System®, but operating at greater depths. The 250K UB Rigs utilize PLC electronic-over-hydraulic operating systems that provide more accurate control and monitoring of the drilling and Workover operations. The unit has an automated Tripping procedure, thus increasing the speed at which the tubulars are inserted or removed. With a 24 metre (78.7 foot) mast, the 250K UB Rig allows for a number of BOP configurations to be added, while maintaining standard drilling and Tripping capabilities. The simple and quick installation of BOPs not only reduces rig set-up time and its associated costs, but also increases safety for personnel. An added advantage is that the 250K UB Rig has a smaller footprint than conventional service rigs allowing for drilling operations in tighter locations and reducing land disturbance.

The Corporation currently owns three 250K UB Rigs, all operating in Canada under short term renewable Day Rate contracts.

Hydraulic Workover Rigs

HWRs are capable of the majority of Workovers, completions, re-entries, abandonments and Snubbing operations that are currently being conducted with conventional drawwork type service rigs in combination with Rig Assist units. The HWR moves the tubular components in and out of the wellbore using hydraulic rams and slip assemblies. The HWR provides greater flexibility for BOP configurations.

The HWR's size, weight and packaging capability reduce the costs of transportation and maintenance, making it appropriate for equipment areas with limited space. Therefore, the HWR is primarily used in remote locations, equipment areas with limited space and offshore applications. HWRs allow Workover and Snubbing operations to be conducted within a small equipment footprint. These rigs are capable of independently lifting a pipe string of up to 208.6 tonnes (460,000 pounds), with added Snubbing capabilities of up to 104.3 tonnes (230,000 pounds). The Tripping time, while in an overbalanced state, is comparable to conventional drawwork type rigs. During underbalanced operations

there is no need to mobilize additional well control support equipment because of its capacity to act as a Snubbing Unit.

HWRs can function efficiently on conventional well operations (typically used in the international market) as well as in all types of underbalanced scenarios (typically used in the Canadian market).

The Corporation owns four HWRs which operate mainly in the Middle East. Two of the HWRs are currently operating in Kuwait under a five year Day Rate contract signed in 2007.

The third HWR operated in Qatar from August 2007 until December 2007 and in March, 2008 began mobilization into PNG on a year contract with OSL. The Corporation will be able to take advantage of its infrastructure in PNG to support the operation of this HWR.

The fourth HWR is currently in Canada being marketed for short term well by well contracts.

Heli- Portable Drilling Rigs

The Corporation operates two heli-portable drilling rigs in Papua New Guinea under drilling services contracts with a subsidiary of OSL. The rigs are leased by the Corporation from OSL under leases with a term that matches the term of the related drilling services contract. The drilling services contracts are comprised of an eighteen month term for Rig 101 that commenced on February 1, 2007 and a three year term for Rig 103 that commenced upon the start of drilling operations on December 31, 2007. Both contracts are Day Rate contracts.

The Corporation also provides drilling support equipment, such as camps, rig matting, cranes, forklifts and trucks, on a Day Rate rental basis and drilling support personnel on a Day Rate basis all under a drilling support contract with a term tied to the term of the drilling services contracts.

Rig Assist Snubbing Units

The Rig Assist Snubbing unit is a truck-mounted hydraulic system that can be used in conjunction with the other services on location to manage a Well while it is underbalanced. The system function is to run downhole tubulars in and out of the Well using hydraulic rams. Since the Rig Assist Snubbing Unit is a modular unit, it can be rigged up in as little as one hour. The Rig Assist Snubbing Unit is typically contracted on a day-to-day call-out basis to snub-assist in combination with a workover rig in underbalanced operations as requested by a customer.

The Corporation owns seven Rig Assist Snubbing Units, of which four are in Canada and generally work on short-term well by well Day Rate contracts. The other three units are rented to a company that operates them in the United States and pays rent to the Corporation based on the utilization under a six month contract that commenced in December 2007.

Stand Alone Snubbing Systems®

The Stand Alone Snubbing System® was designed and developed by HAES in 1997 primarily to assist in the completion of shallow to medium gas wells without the need to have both a conventional service rig and a Rig Assist Unit to perform Snubbing Operations. This system is capable of Tripping tubing, with an automated pipe handling system, in excess of 3,500 meters (11,483 feet) with an average trip time of 9.5 metres (11,483 feet) per minute and a lifting capability of 54.4 tonnes (120,000 pounds). The Stand Alone Snubbing System® allows wells to be completed while eliminating the use of a

conventional service rig and rig assist combination by providing all self-contained support equipment required for its operation. HAES has developed a load management system that allows work to be conducted on the Well without the transfer of extra weight to the wellhead, in order to minimise ground disturbances and enable the Stand Alone Snubbing System® to be free standing.

The Corporation owns ten Stand Alone Snubbing System® units all located in Canada. Generally the units work on short-term well-by-well Day Rate contracts.

Foothills Stand Alone Snubbing Systems

In 2005, HAES introduced the Foothills Stand Alone Snubbing System, the second generation of the Stand Alone Snubbing System®. The system functions in the same manner as the Stand Alone Snubbing System®; however, the Foothills Stand Alone Snubbing System has a larger capacity pump, BOP system and flow recovery equipment. These added features enable the Foothills Stand Alone Snubbing System to conduct completions and workovers of medium to deep gas wells that are beyond the capacity of the Stand Alone Snubbing System® and the Rig Assist Unit.

The Corporation owns five Foothills Stand Alone Snubbing Systems units all located in Canada. Generally, the units work on short-term well-by-well Day Rate contracts.

Air Drilling Services

The Air Drilling services provide portable air compression equipment to supply compressed air used as a drilling medium primarily for surface hole drilling applications and for the purging and air drying of pipelines.

Cryogenic Liquid Nitrogen Pumping Services

The Corporation delivers liquid nitrogen to clients using N₂ pumping units. The N₂ pumping unit is a heat recovery N₂ system used in land and offshore applications worldwide. N₂ is an inert gas that is non-corrosive and non-explosive and is used in place of air for purging pipelines, pressure testing vessels and facilitating the withdrawal of stored liquids from vessels whenever a risk hazard assessment dictates. N₂ is widely used in the oil and gas industry, and in all of the Corporation's service lines, especially in connection with Snubbing operations since its inert nature allows jobs to be completed safely.

Optimal Joint Venture

The equipment used to provide the services under the Optimal Joint Venture includes Membrane Nitrogen Generation Units, Rotating Flow Control Heads, Surface Separation Packages and Choke Manifolds, all as described below. Subject to the job parameters, the equipment listed above may be mixed and matched to form customized drill kits. Such parameters are defined on a well-by-well basis and are dependent on Well depth, formation pressures and complexity of the formation structure. MPD is the practice of using equipment to precisely control the drilling pressure in overbalanced, at balance or underbalanced situations.

Membrane Nitrogen Generation Units

The Corporation's membrane nitrogen generation Units produce N₂ from air using a filtering process. Atmospheric air is compressed and then cooled. The air then enters a series of filters designed to remove particulates, hydrocarbons, and water vapour from the flow stream. The dried and particulate-free air proceeds to an oxygen filter membrane that separates the nitrogen from the flow stream and vents

the oxygen to the atmosphere. The approximately pure N₂ then enters a gas booster where the pressure is increased to working pressure. These systems are best used for remote locations where the cost of delivered liquid nitrogen is high, when scheduling and delivery of nitrogen takes a long time, or when the requirement calls for continuous mobility.

Surface Separation Packages

Vertical separators are the optimum design for separating gas from liquid, and horizontal separators are the optimum design for the separation of liquids of various densities. The type and design of the separator is influenced by the well design and a number of parameters such as the type of drilling fluid and the pump rate, expected production rate and type of reservoir fluid, hole size and length and length of reservoir to be drilled, as well as the environment (offshore or onshore).

A dual purpose separator for the separation of formation fluids, consisting of an underbalanced drilling separator and a MPD separator. The dual purpose process reduces the separation costs of the current four phase (oil, gas, water and solids) horizontal UBD separators.

Rotating Flow Control Heads

The Rotating Flow Control Head is a drill-through device with a seal that contacts and seals against the drill string (jointed pipe and other down hole tubulars) to control the pressure or fluid flow to surface.

The Corporation's Rotating Flow Control Heads divert gas or fluid at pressures up to 35,000 kPa (5,000 psi) to a surface recovery system during UBD and MPD drilling applications. The Corporation's Rotating Flow Head Control has a cast ductile design, a sealed bearing which eliminates the need for external cooling and lubrication, and can be used in H₂S drilling applications. The Rotating Flow Head Control connects to the BOP stack and forms a positive seal against the drill string.

Choke Manifold

The UBD Choke Manifold is used for controlling Well pressure and reducing it, if required, reducing it to an acceptable level prior to using the separation equipment. The Choke Manifold provides alternate flow paths to allow choke inserts to be replaced without having to shut in the well.

Market Information - International Markets

HAES has operated internationally since 1998, but the forecasted increase in international activity and the softening of the domestic Canadian market have influenced the decision of the Corporation to focus on international operations. The international industry is predominantly targeted at oil and high world demand for oil along with regional concerns over security of supply has resulted in recent oil prices that have been high by historical standards. These factors have led to the growth in international drilling activity and that trend is expected to continue in the foreseeable future. Management expects that well, rig counts and capital spending to all continue to increase in 2008 and beyond in most oil producing regions.

Papua New Guinea (“PNG”)

There are significant oil and natural gas reserves in PNG and the country has pinned its hopes on becoming a significant energy exporter, but exploitation has been hampered thus far by difficult terrain and the high cost of operating and developing infrastructure.

High Arctic has contracted with OSL in PNG to drill with two heli-portable drilling rigs. OSL is the largest operator in PNG, and PNG is the core part of OSL’s business activities. High Arctic believes it was awarded the contracts over the incumbent service provider for a variety of reasons other than price, including its commitment to customer service and its extensive experience working in difficult terrains such as northern Canada. The Corporation operates the two newest rigs currently in the country. Other operators have expressed interest in the rigs if OSL finds it has excess capacity so the Corporation expects the rigs will have sufficient work.

The contracts with OSL are Day Rate Contracts for periods of 18 months commencing February 1, 2007 for Rig 101 and 36 months for Rig 103 commencing on start of the first Well on December 31, 2007. Both contracts grant OSL extension options and generally do not permit termination other than in limited circumstances such as a failure to cure a performance default. The Corporation has signed a contract to mobilize the Cadomin HWR unit and expects to be ready to begin operations with it in May, 2008. The Corporation has also agreed to mobilize its fabrication facilities from Dubai to PNG. Management believes that PNG offers many other opportunities for growth.

Mexico

Mexico has experienced declining production in some of its mature fields. State oil company Petroleos Mexicanos (Pemex) holds all of the resource rights but regularly issues tenders for large scale drilling programmes and is expected to continue to do so. The nature of the work is well suited for the underbalanced services.

The Corporation began operations in Mexico in August 2007. Through the Optimal Joint Venture, the Corporation should benefit from the optimistic suggestion of an increased activity relating to gas production. The Directors believe that Schlumberger will be in a position to direct work to the Optimal Joint Venture and will increasingly do so as Optimal Mexico increases its available equipment.

Market Information – Domestic Market

In Canada, natural gas prices and, to a lesser extent, oil prices are the primary drivers of the Corporation’s activity levels, as the netbacks expected to be received by its customers determine oilfield activity on their part. Reductions in prices, particularly for natural gas, coupled with a strengthening Canadian dollar, resulted in a significant decline in industry activity in the Western Canadian Sedimentary Basin during the latter half of 2006 and 2007. The AECO natural gas spot price and West Texas Intermediate (“WTI”) oil spot price as at December 31, 2007 were CDN \$6.44 per gigajoule and US \$93.35 per barrel, respectively. AECO averaged approximately CDN \$6.47 per gigajoule for the year ended December 31, 2007 compared to CDN \$6.55 per gigajoule for 2006 and CDN \$8.31 per gigajoule for 2005. WTI averaged US \$76.48 per barrel for the year ended December 31, 2007 compared to US \$66.05 per barrel for 2006 and US \$56.57 per barrel for 2005.

The Corporation strives to increase its revenue and revenue per well through application of the “bundling concept”. Management believes this service offering increases utilization of equipment, provides additional revenue per job site, and allows the Corporation to combine multiple product lines to

the same customer. Management also believes it has allowed the Corporation to cross-sell services that were previously provided by other suppliers or competitors.

Competitors

The Corporation's competitors on a particular tender will vary by country and the type of equipment required. The factors the Corporation believes are important in it obtaining new contracts are its comparatively new fleet of technologically advanced equipment, its high level of experience with underbalanced drilling services, its ISO certified processes and its personnel and management. The Optimal Joint Venture gives it a strong competitive advantage in pursuing UBD and MPD as a result of being ventured with a leading global service provider.

The Corporation's competitors for the HWR units vary by region but include large service companies such as Halliburton, Weatherford, International Snubbing Services, Hydraulic Well Control and CUDD Energy Services. The Corporation's direct competitors for the RAPAD™ Rigs are limited but the RAPAD™ Rig will often be seen as a substitute for a conventional drilling rig where the competitors include such companies as Nabors Drilling, Weatherford, Parker Drilling and Great Wall Drilling.

The Canadian domestic market is a highly competitive, mature market with a range of competitors to each of the Corporation's product lines. The Directors believe that the Corporation stands out from its competitors in a number of ways; its newer, more advanced fleet of equipment, its industry-recognised training and its wide range of services. There are few competitors that offer this full service capability. Instead, there are smaller competitor firms for each service line.

Customers

International customers include large publicly traded companies such as OSL, several national oil companies such as in Kuwait and Saudi Arabia, and an affiliate of Schlumberger in Mexico.

High Arctic has over 400 customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, High Arctic has two significant customers representing approximately 44% of its revenue for the year ended December 31, 2007 and 43% of its accounts receivable at that date. The first significant customer is a major Canadian exploration and production company to whom a full range of the Corporation's services are provided. The services provided to this customer are distributed within this customer's diverse locations of operations, 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, OSL, in Papua New Guinea. Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with these customers. See "*Risk Factors – Agreements and Contracts*".

Employees

As at December 31, 2007, High Arctic had approximately 235 employees and contractors in Canada and approximately 349 employees and contractors internationally.

Competitive Conditions

High Arctic provides oilfield services primarily to the field operation locations of oil and gas exploration and production companies that are located in western Canada and in various foreign

countries. The oilfield service business in which High Arctic operates is highly competitive and in order to be successful, High Arctic must provide services that meet the specific needs of its clients at competitive prices. The principal competitive factors in the markets in which High Arctic operates are service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience and reputation for safety and price. Competitors offer similar services in all geographic regions in which High Arctic operates. See "Risk Factors – Competition".

Seasonality

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. On a monthly basis, drilling activity varies greatly. The annual drilling cycle can generally be viewed in four components:

- Mid-March through mid-May – spring break-up; the northern drilling locations thaw and southern lands become impractical for travel due to wet road conditions. Drilling activity is generally low with companies planning the summer drilling season.
- Mid-May through mid-October – summer and fall drilling season; generally focused on non-northern areas that are accessible in the summer; summer drilling activity is medium to strong.
- Mid-October to mid-November – switchover to winter drilling season; characterized by lighter drilling activity when many companies are moving off summer drilling locations and preparing winter drilling leases for delivery of equipment.
- Mid-November through mid-March – winter drilling season; this is the period when the majority of rig activity takes place and exploration companies take advantage of the frozen landscape to access northern winter drilling locations.

High Arctic's inability to operate during any period has a higher impact on the results of its operations compared to some of its competitors who are in a position to deploy additional, potentially idle, equipment in the face of "catch-up" demand after the adverse operating conditions have subsided. High Arctic has spread some of this risk through its international operations. High Arctic's international operations are not as dependent on weather and do not have the same seasonality constraints as its Canadian operations. See "*Risk Factors – Seasonality*".

RISK FACTORS

The business and operations of the Corporation are subject to various risks as set forth elsewhere in the AIF and below. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this AIF.

Risks Relating to the Business

Compliance with Financial Covenants

If High Arctic breaches any of the financial covenants or certain other covenants in its credit facilities and fails to cure such breach within the cure periods specified therein, all amounts owing under the Revolving Credit Facility, Bridge Loan, and the Debentures will become due and payable immediately. In such event, pursuant to security granted pursuant to the Revolving Credit Facility and Bridge Loan, the Corporation's lenders will have the right, among others, to seize and sell any or all of the Corporation's assets and to apply the proceeds of such sale against the outstanding obligations. The Corporation has required waivers and amendments to its covenants in the past and expects to require further amendments in the future. The details are described in the December 31, 2007 financial statements of the Corporation.

Illiquidity and Financing Risks

The company continues to require additional financing for operations, growth and debt repayment. On February 26, 2007, the Corporation announced that its Board of Directors had formed a special committee, comprised solely of independent directors, to consider the benefits of a reorganization of the Trust. It was expected that the proposed reorganization would include a conversion to a corporation; a restructuring of long-term debt; and an issuance of equity from treasury. In February 2007 the Trust also suspended distributions to unitholders.

These actions were primarily due to the need to preserve capital for operations and growth due to the change in the ability to access new equity from the capital markets. This situation primarily resulted from the proposed change in Canadian taxation policy for income trusts and the consequent inability to fund the capital expenditure program in whole, or in part, with equity.

Corporation's Indebtedness

The Corporation's debt levels are currently above industry standards. The level of the Corporation's indebtedness could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Third Party Credit Risk

A substantial portion of the Corporation's accounts receivables are with customers involved in the oil and gas industry, whose revenues may be impacted by fluctuations in commodity prices. Collection of these receivables could be influenced by economic factors affecting the oil and gas industry or by legal or other disputes with customers. Failure to collect accounts receivable from customers could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

A substantial portion of the accounts receivable are with foreign corporations whose place of incorporation and location of assets make collection more difficult.

Key Personnel

The successful operation of the Corporation's business depends upon the abilities, expertise, judgment, discretion, integrity and good faith of its executive officers, general managers, employees and consultants. In addition, the ability of the Corporation to expand its services will depend upon the ability to attract qualified personnel as needed. The demand for skilled oilfield employees is high, and the supply is limited. The unexpected loss of key personnel or the inability to retain or recruit skilled personnel could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Government of Alberta Royalty Regime

On September 18, 2007, the Alberta Royalty Review Panel released its report providing recommendations on modifications to the Alberta provincial royalty and tax regime. On October 24, 2007 the Government of Alberta announced that it intends to pursue some but not all of the changes recommended by the panel. The changes will result in higher royalty rates overall and may result in a decrease in exploration and production activity in the Province of Alberta which will likely negatively impact the Corporation's cash flow due to the expected decrease in demand for its services. It is not possible to predict at this time what the impact will be on the Corporation or to separate the impact of higher royalties from other factors affecting the industry.

Government Regulation

The operations of the Corporation are subject to a variety of federal, provincial and local laws of Canada and foreign laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers. Although such expenditures historically have not been material to the Corporation, such laws or regulations are subject to change and may be material to the Corporation in the future. Accordingly, it is impossible to predict the cost or impact that such laws and regulations may have on the Corporation or its future operations.

Seasonality

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. Spring break-up during the second quarter leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of oilfield services. The duration of this period will have a direct impact on the level of the Corporation's activities. Spring break-up occurs earlier in the year in south-eastern Alberta than it does in northern Alberta and British Columbia. The timing and duration of spring break-up is dependant on weather patterns but it generally occurs in April and May. Additionally, if an unseasonably warm winter prevents sufficient freezing, the Corporation may not be able to access well sites and its operating results and financial condition may therefore be adversely affected. The demand for oilfield services may also be affected by the severity of the Canadian winters. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenues. The volatility in the weather and temperature can therefore create unpredictability in activity and utilization rates, which could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

The Corporation's inability to operate during any period has a higher impact on the results of its operations compared to some of its competitors who are in a position to deploy additional, potentially idle, equipment in the face of "catch-up" demand after the adverse operating conditions have subsided. The Corporation has spread some of this risk through its international operations. The Corporation's international operations are not as dependent on weather and do not have the same seasonality constraints as its Canadian operations. In addition, the international contracts usually provide a term of at least 6 months with operations generally carried on every day throughout the term.

Service Agreements and Contracts

The business operations of the Corporation depend on successful execution of performance-based contracts, many of which are oral agreements or are written agreements that are cancellable at any time. The key factors which determine whether a client will continue to use the Corporation are service quality and availability, reliability and performance of the Corporation's equipment, technical knowledge and experience, reputation for safety and competitive price. There can be no assurance that the Corporation's relationship with its customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Internal Control Deficiencies

The Corporation has determined that specific weaknesses have been identified in respect of internal controls, IT integration, contract management, retention of key personnel and in its ability to manage contracts and, in particular, the costs and completion timelines for contracts to procure equipment. The Corporation has implemented many improvements to these areas and to its overall procurement practices, inventory management and accrual processes and will work on further improvements. However, the Corporation's inability to successfully address potential material weaknesses in internal controls or other control deficiencies may affect its ability to report its financial results on a timely and accurate basis and to comply with disclosure and other requirements.

Operating Risks and Insurance

The Corporation's operations are subject to hazards inherent in the oil and gas industry, such as equipment defects, malfunction and failures, and natural disasters which result in fires, vehicle accidents, explosions and uncontrollable flows of natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruption and damage to or destruction of property, equipment and the environment. These risks could expose the Corporation to substantial liability for personal injury, wrongful death, property damage, loss of oil and gas production, pollution, and other environmental damages. The frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators.

Although the Corporation maintains insurance coverage that it believes is adequate and customary for an operator in the energy services industry, there can be no assurance that such insurance will be adequate to cover the Corporation's future liabilities. In addition, there can be no assurance that the Corporation will be able to maintain adequate insurance at rates it considers reasonable and commercially justifiable. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits to be maintained by the Corporation, or a claim at a time when the Corporation is not able to obtain liability insurance, could have a material adverse effect on the Corporation's ability to conduct normal business operations and on its financial condition, results of operations and cash flows.

Breach of Agreements with Equipment Suppliers

The Corporation is party to agreements with certain equipment manufacturers which agreements provide that the company may take possession of, and operate, the manufacturer's equipment while the Corporation remains obligated to pay for such equipment or for equipment which has not been delivered but which the Corporation is contractually obligated to acquire from the manufacturer. If the Corporation fails to satisfy such obligations, certain equipment manufacturers will be entitled to seize some or all of the equipment it has provided or will provide to the Corporation, in full or partial satisfaction of such obligations.

Sources, Pricing and Availability of Equipment and Equipment Parts

The Corporation sources its equipment and equipment parts from a variety of suppliers, most of which are located in Canada, the United States and Norway. Should any such suppliers be unable to provide the necessary equipment or parts or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services or in the time required to find new suppliers could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. The Corporation is dependent on the technical services of Sense EDM for certain parts and services particularly with respect to the automation systems in the three 250K UB Rigs and the three RAPAD Rigs.

Proprietary Technology

The success and ability of the Corporation to compete depends in part on the proprietary technology of the Corporation and its subsidiaries, proprietary technology of third parties that has been, or is required to be, licensed by the Corporation and its subsidiaries and the ability of the Corporation and such third parties to prevent others from copying such proprietary technologies. The Corporation relies on intellectual property rights and other contractual or proprietary rights, including (without limitation) copyright, trademark laws, trade secrets, confidentiality procedures, contractual provisions and licenses and patents to protect its proprietary technology and on third parties from whom licenses have been received to protect their proprietary technology. The Corporation may have to engage in litigation in order to protect its patents or other intellectual property rights, or to determine the validity or scope of the proprietary rights of others. This kind of litigation can be time-consuming and expensive, regardless of whether the Corporation is successful. The process of seeking patent protection can itself be long and expensive, and there can be no assurance that any patent applications of the Corporation and its subsidiaries or such third parties will result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to the Corporation. Furthermore, others may develop technologies that are similar or superior to the technology of the Corporation or such third parties or design around the patents owned by the Corporation, its subsidiaries and/or such third parties.

Despite the efforts of the Corporation or such third parties, the intellectual property rights, particularly existing or future patents, of the Corporation or such third parties may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps the Corporation or such third parties may take to protect its intellectual property rights and other rights to such proprietary technologies that will be central to the Corporation's operations will prevent misappropriation or infringement or the termination of licenses from third parties.

Risk of Third Party Claims for Infringement

A third party may claim that the Corporation has infringed such third party's rights or may challenge the right of the Corporation in their intellectual property. Any claim, whether or not with merit, could be time consuming to evaluate, result in costly litigation, cause delays in the operations of the Corporation or require the Corporation to enter into licensing agreements that may require the payment of a license fee or royalties to the owner of the intellectual property. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Corporation.

Variations in Foreign Exchange Rates

The Corporation's business will be carried on in Canada and internationally and a material portion of its revenues and expenses will be denominated in US dollars or in currencies that will fluctuate in a manner similar to the US dollar. A material change in the value of Canadian dollar relative to the US dollar may have a material adverse change on the Corporation's, business, financial condition, results of operation and cash flow.

Risks applicable to the oilfield services industry

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The details of the implementation of the Kyoto Protocol in Canada (or another policy in its place) have not been finalized, although the Canadian government announced in its Throne Speech on October 16, 2007 that it will not be able to meet the emission targets within the compliance period commencing January 1, 2008. Depending on the specifics of the regulations, the Corporation may be required to reduce emissions of greenhouse gases from operations, to purchase emissions trading credits or pay for other types of offsets. Future federal legislation, together with provincial emission reduction requirements, such as those required under the Climate Change and Emissions Management Act (Alberta), may require the reduction of emissions or emissions intensity from the Corporation's operations and facilities. Mandatory emissions reductions may result in increased operating costs and capital expenditures for oil and gas producers, thereby decreasing the demand for the Corporation's services. The mandatory emissions reductions may also impair the Corporation's ability to provide its services economically. The Corporation is unable to predict the impact of the Kyoto Protocol and it is possible that it will adversely affect the Corporation's business, financial condition, and results of operations.

Lower Canadian Industry Activities

The level of activity in the oil and gas exploration and production industry is volatile and has experienced a decline in 2007 from earlier years. The Corporation's activity in Canada is driven largely by the number of wells completed. The Canadian Association of Drilling Contractors has forecast that the number of wells to be completed in Western Canada during 2008 will be 13,735. This compares to forecast of 16,232 wells for 2007 and actual well completions of 22,127 and 21,999 for 2006 and 2005, respectively.

The lower level of activity in Western Canada is driven in large part by the fact that North America natural gas prices are currently at lower levels than in recent years. In Canada, natural gas prices and, to a lesser extent, oil prices are the primary drivers of the Corporation's activity levels, as the netbacks expected to be received by its customers determine oilfield activity on their part. Reductions in

prices, particularly for natural gas, coupled with a strengthening Canadian dollar, resulted in a significant decline in industry activity in the Western Canadian Sedimentary Basin during the latter half of 2006 and 2007. The AECO natural gas spot price and West Texas Intermediate (“WTI”) oil spot price as at December 31, 2007 were CDN \$6.44 per gigajoule and US \$93.35 per barrel respectively. AECO averaged approximately CDN \$6.47 per gigajoule for the year ended December 31, 2007 compared to CDN \$6.55 per gigajoule for 2006 and CDN \$8.31 per gigajoule for 2005. WTI averaged US \$76.48 per barrel for the year ended December 31, 2007 compared to US \$66.05 per barrel for 2006 and US \$56.57 per barrel for 2005. The resulting reduced demand for services to oil and gas customers results in more competitive pricing pressures from the Corporation’s customers. A sustained downturn in activity will reduce not only the quantity of the work but could affect the operating margins.

International activity is driven more by exploration and development for crude oil. Currently, crude oil prices are at historically high levels which has increased demand for the Corporation’s services. A decrease in oil prices could adversely affect the demand for the services.

Volatility of Industry Conditions

The demand, pricing and terms for oilfield services largely depend upon the level of industry activity for oil and natural gas exploration and development. Industry conditions are influenced by numerous factors over which the Corporation will have no control, including: the level of oil and gas prices; expectations about future oil and gas prices; the cost of exploring for, producing and delivering oil and gas, including estimated costs from changes to government royalty regimes (see below); the expected rates of declining current production; the discovery rates of new oil and gas reserves; available pipeline and other oil and gas transportation capacity; worldwide weather conditions; global political, military, regulatory and economic conditions; and the ability of oil and gas companies to raise equity capital or debt financing. A material decline in oil or gas prices or industry activity in any of the areas in which High Arctic operates could have a material adverse effect on the Corporation’s business, financial condition, results of operations and cash flows.

Competition

The Corporation provides oilfield services primarily to the field operation locations of oil and gas exploration and production companies. The oilfield service business in which the Corporation operates is highly competitive. To be successful, the Corporation needs to provide services that meet the specific needs of its clients at competitive prices. The principal competitive factors in the markets in which the Corporation operates are service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience and reputation for safety and price. The Corporation competes with several regional and international competitors that are smaller or larger than the Corporation. These competitors offer similar services in all geographic areas in which the Corporation operates. As a result of competition, the Corporation may be unable to provide some of the services presently offered by the Corporation and its subsidiaries or to acquire additional businesses, which may affect the Corporation’s business, financial condition, results of operations and cash flows.

Reduced levels of activity in the oil and natural gas industry could intensify competition and result in lower revenue to the Corporation. Variations in the exploration and development budgets of oil and natural gas companies which are directly affected by fluctuations in energy prices, the cyclical nature and competitiveness of the oil and natural gas industry and governmental regulation, will have an effect upon the Corporation’s ability to generate revenue and earnings.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Risks applicable to the Corporation's foreign operations

Foreign Operations

The Corporation's international operations are subject to special risks inherent in doing business outside Canada. These risks can involve matters arising out of the policies of foreign governments, imposition of special taxes or similar charges by government bodies, restrictions on carrying on business or the revocation or non-issuance of licenses to carry on business by a foreign government, foreign exchange fluctuations and controls, civil disturbances and deprivation or unenforceability of contract rights or the taking of property without fair compensation. Foreign properties, operations and investments may be adversely affected by local political and economic developments, including nationalization, laws affecting foreign ownership, government participation, royalties, duties, rates of exchange, exchange controls, currency fluctuation, taxation and new laws or policies as well as by laws and policies of Canada affecting foreign trade, investment and taxation. Furthermore, it is important for the Corporation to maintain good relationships with the governments in certain of the countries in which it operates. The Corporation may not be able to maintain such relationships if the governments of these countries change. Certain regions in which the Corporation may conduct operations have been subject to political and economic instability. The Corporation's operations are subject to government legislation, policies and controls relating to environmental protection, taxes and labour standards.

Since the Corporation derives a portion of its revenues from its subsidiaries outside Canada, the payment of dividends or the making of other cash payments or advances by these subsidiaries to the Corporation may be subject to restrictions or controls on the transfer of funds in or out of these countries or result in the imposition of taxes on such payments or advances. In addition, since the Corporation's foreign operations are governed by foreign laws, in the event of a dispute, the Corporation may be subject to the exclusive jurisdiction of foreign courts and the application of foreign laws, or may not be successful in subjecting foreign persons to the jurisdiction of Canadian courts.

DESCRIPTION OF CAPITAL STRUCTURE

Capitalization

The Corporation's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares. As at December 31, 2007 and March 27, 2008 there were 42,442,325 issued and outstanding Common Shares and no issued preferred shares.

The Common Shares trade on the Toronto Stock Exchange under the symbol HWO. The closing price of the shares on March 27, 2008 was \$0.75 per share. Based upon 42,442,325 issued common shares, the Corporation has an approximate market capitalization of \$31.8 million.

Common Shares

Each Common Share entitles its holder to receive notice of and to attend all meetings of the shareholders and to one vote at such meetings. The holders of Common Shares are, at the discretion of the board of directors, entitled to receive any dividends declared by the board of directors. The holders of Common Shares are entitled to share equally in any distribution of the assets of the Corporation upon its liquidation, dissolution, bankruptcy or winding-up or other distribution of its assets among its shareholders for the purpose of winding-up its affairs.

Dividend policy

The declaration and payment by the Corporation of any future dividends on the Common Shares and the amount will be at the discretion of Board and will be established on the basis of the Corporation's earnings, financial requirements and other conditions existing from time-to-time. The Board does not currently intend to implement a policy of paying dividends to the Shareholders in the foreseeable future. There can be no assurance that the Corporation will pay any dividends in the future.

Stock Option Plan

The Directors believe that the success of the Corporation will depend to a significant degree on the future performance of the management team. The Directors also recognise the importance of ensuring all employees, consultants, officers and Directors are well motivated and their interests are aligned with the interests of the Shareholders. Accordingly, the Corporation has established the Stock Option Plan.

The Stock Option Plan authorizes the Corporation to grant an option to purchase Common Shares to participants, who comprise directors, officers and employees of, and persons or companies who provide management or consulting services to, High Arctic

MARKET FOR SECURITIES

Trading summary

The common shares are listed for trading on the TSX under the symbol “HWO”. The following table sets forth the closing price range and trading volume of the common shares as reported by the TSX for the periods indicated:

PERIOD	HIGH	LOW	VOLUME
JANUARY	6.23	4.70	774,165
FEBRUARY	6.29	3.00	2,117,096
MARCH	3.21	2.66	1,494,902
APRIL	3.00	2.68	1,480,260
MAY	2.90	2.06	2,370,782
JUNE	2.55	2.11	950,046
JULY	2.90	2.10	1,356,030
AUGUST	2.42	1.61	365,657
SEPTEMBER	2.04	1.50	660,057
OCTOBER	1.79	1.35	881,419
NOVEMBER	1.69	1.00	579,717
DECEMBER	1.19	0.85	1,529,170

DIRECTORS AND OFFICERS

The following table sets forth the names and municipalities of residence of those individuals who are directors of the Corporation, together with their principal occupations and positions held during the last five years.

Name and Municipality of Residence	Position	Director / Officer Since	Principal Occupation During the Preceding five years	Shares and % of Shares Beneficially owned, controlled or directed, directly or indirectly
Jed Morgan Wood <i>Red Deer, Alberta</i>	President, Chief Executive Officer, Director	2005	President and Chief Executive Officer of High Arctic since 1993.	17,718,079 / 41.75%
Michael Rupert Binnion ^(1,2,5,7) <i>Calgary, Alberta</i>	Director and Chairman of the Board	2005	President and Chief Executive Officer of Qvesterre Energy Corporation since November 2000.	150,333 / 0.35%
Christopher Randall Warren Q.C. ^(3,4,7) <i>Red Deer, Alberta</i>	Corporate Secretary and Director	2005	Mr. Warren is a partner in the law firm, Warren Sinclair LLP since its formation in 1981.	3,000 / 0.007%
Simon Batcup ^(3,5,6) <i>Calgary, Alberta</i>	Director, Managing Director of Optimal Joint Venture	2007	Prior to joining Optimal in 2007, Mr. Batcup was the Vice President, Commerce and Director of Robyn's Transport Ltd. since 2005. From 1998 to 2005, he held successive positions at Sylogist Ltd. ending as Vice President, Operations.	Nil / Nil
Dennis Frank Sykora <i>Calgary, Alberta</i>	Executive Vice President and General Counsel	2007	Vice President of the Corporation since April, 2007. Prior to that, President of the international division of Roll'n Oilfield Industries Ltd.	Nil / Nil
Morley William Myden <i>Calgary, Alberta</i>	Chief Financial Officer	2007	President, Mountain Ink Inc. (private company) from 2004. Prior to that 22 years in successive senior management positions with Halliburton Canada Inc, including, Controller and Director of Shared Services..	Nil / Nil
Bruce Allen Thiessen <i>Red Deer, Alberta</i>	Vice President, Marketing	2000	Vice President, Marketing since 2000. Has led the High Arctic marketing department since 1993. Previously, he was Marketing Manager at Terroco Oilfield Services.	848,376 / 2.00%

Name and Municipality of Residence	Position	Director / Officer Since	Principal Occupation During the Preceding five years	Shares and % of Shares Beneficially owned, controlled or directed, directly or indirectly
Peter Paul Julien <i>Red Deer, Alberta</i>	Vice President, Controller	2006	Vice President, Finance since 2007 and Interim CFO from September 1, 2007 to March 24, 2007. Prior to that various senior management positions within High Arctic. Joined the Corporation in 2002.	7,500 / 0.02%
Warren Lloyd Twa <i>Dubai, UAE</i>	Vice President, International Operations	2007	Vice President, International Operations of High Arctic since April, 2007. Prior to that nine years as the VP, International Operations for Roll'n Oilfield Industries Ltd. He has over 35 years of experience in the international oilfield services business	Nil / Nil
Christopher James Anderson <i>Red Deer, Alberta</i>	Vice President, Canadian Operations	2006	Vice President, Canadian Operations since March, 2007. Prior to that Vice President, Pressure Services from June, 2006. Prior to that senior management position at Halliburton Canada Inc. 28 years of oilfield services experience.	9,507 / 0.02%
Ken Hemmerich <i>Bangkok, Thailand</i>	Vice President, IPM	2006	Vice President since 2006. Joined High Arctic in 2002 and has held various senior management roles.	501,616 / 1.18%

Notes:

- (1) On June 22, 2004, Questerre Energy Corporation applied for and was granted an order by the Court of Queen's Bench of Alberta providing for creditor protection under the *Companies Creditors Arrangement Act*. On September 9, 2004 Plans of Compromise or Arrangement were sanctioned by the Court of Queen's Bench of Alberta and implemented shortly thereafter. Michael Rupert Binnion, director of the Corporation, has been President and Chief Executive Officer of Questerre Energy Corporation since November 2000.
- (2) Chairman of the Audit Committee
- (3) Member of the Audit Committee
- (4) Chairman of the Governance and Compensation Committee
- (5) Member of the Governance and Compensation Committee
- (6) Chairman of the Environment, Health and Safety Committee
- (7) Member of the Environment, Health and Safety Committee

The terms of each of the directors will expire at the time of the Corporation's next Annual General Meeting.

Securities of Directors and Officers

As at March 27, 2008, the directors and executive officers of the Corporation, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 19,238,411 common shares of the Corporation, or approximately 45.33% of the issued and outstanding common shares of the

Corporation, based on 42,442,435 issued and outstanding common shares. Mr. Wood holds, directly or indirectly, 17,718,079 common shares of the Corporation. Mr. Wood's collective holdings represent approximately 41.75% of the outstanding common shares.

Conflicts of Interest

Circumstances may arise where members of the board of directors or officers of the Corporation are directors or officers of Corporations which are in competition to our interests. No assurances can be given that opportunities identified by such board members or officers will be provided to the Corporation. Pursuant to the Business Corporations Act (Alberta), directors who have an interest in a proposed transaction upon which our board of directors are voting are required to disclose their interests and refrain from voting on the transaction. As at the date hereof, High Arctic is not aware of any existing or potential material conflicts of interest between the Corporation or one of its subsidiaries and one of its directors or officers.

AUDIT COMMITTEE INFORMATION

Audit Committee Charter

The Audit Committee Charter of the Corporation is set forth in Schedule "A" attached to this Annual Information Form.

Composition of the Audit Committee

The Audit Committee currently has 3 members, Michael Binnion, Simon Batcup and Christopher Warren. Mr. Binnion and Mr. Warren have no direct or indirect material relationship with the Corporation. Mr. Batcup is the Managing Director of the Optimal Joint Venture in which the Corporation has a 51% interest. The Audit Committee members, all of whom are financially literate, meaning the member has the ability to read and understand a set of financial statements that present a breadth and level of complexity of the issues that can be expected to be raised by the Corporation's financial statements.

Mr. Batcup, as the Managing Director of the Optimal Joint Venture, is not considered to be "independent" based on the requirements of Multilateral Instrument 52-110 - Audit Committees ("MI 52-110"). As such, the Corporation is not currently compliant with the requirement set out in MI 52-110 which provides that every member of the audit committee must be independent. Further, the Corporation cannot rely on the various exemptions set out in MI 52-110 given Mr. Batcup's position with the Optimal Joint Venture. However, at this time, the Corporation does not have another independent director to replace Mr. Batcup on the audit committee. The Corporation desires to appoint additional independent directors going forward but has been unable to attract suitable individuals to date. The Corporation intends on replacing Mr. Batcup from the audit committee as soon as a suitable independent director is appointed to the board.

Relevant Education and Experience of Members of the Audit Committee

The following is a description of the education and experience of each member of the Audit Committee.

Michael R. Binnion - Chairman

Mr. Binnion has been actively involved in the financing and executive management of numerous private and public companies through his investment company, Rupert's Crossing Inc. Mr. Binnion is founder and Chief Executive Officer of Questerre Energy Corporation, a Calgary based independent energy company listed on the TSX. He has also been a Director of Terrenex Acquisition Corporation, a public investment company listed on the TSX Venture Exchange since 1995 and a Director of Sylogist Ltd., an information technology solution service provider listed on the TSX Venture Exchange since 1997. Mr. Binnion also holds board positions on four other private companies. Mr. Binnion was a founding shareholder and Chief Executive Officer of Flowing Energy Corporation, a junior oil and gas company, from 1996 until 2001 and was founding shareholder, President, Chief Financial Officer and a Director of CanArgo Energy Corporation, an integrated energy company operating in the Republic of Georgia from 1996 to 2000. Mr. Binnion is a Chartered Accountant and holds a Bachelor's degree in Commerce from the University of Alberta.

Christopher Randall Warren

In 1981, Mr. Warren was one of the founding partners in the law firm, Warren Sinclair LLP. He practices in the areas of Corporate and Commercial Law, Estate Planning and Real Estate. Mr. Warren is currently past president of the Progressive Conservative Association of Alberta; legal adviser and honorary member of the David Thompson Regional Health Foundation Board; a member of the Law Society of Alberta Conveyancing Advisory Committee; a member of the Red Deer Rotary Club; and a member of the Central Alberta Bar Association. Mr. Warren has a Bachelor of Arts degree with Distinction from the University of Alberta and a Bachelor of Law degree from the University of Alberta.

Simon Batcup

Mr. Batcup joined the Board in June of 2007. He provides consulting services to the Optimal Joint Venture. Previously, he was the Vice President, Commerce and Director of Robyn's Transport Ltd. (a private transportation company). Prior thereto, Simon held successive positions at Sylogist Ltd. (a public consulting company), starting as a consultant and ending as Vice President, Operations.

Charter

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities for financial matters. It performs this function by serving as an independent and objective party to monitor the Corporation's financial reporting process and internal control system; reviewing and assessing audit efforts of the Corporation's independent auditors; providing an avenue of open communication among the Corporation's independent auditors, financial and senior management and Board of Directors; and reviewing the independence and performance of the independent auditor. The Audit Committee has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities and the authority to retain such outside counsel, experts and other advisors as it determines appropriate to assist in the conduct of any investigation. Attached as Schedule A hereto is the complete text of the Audit Committee's terms of reference.

Audit Fees

The table below provides disclosure of the fees billed by the Corporation's external auditors in fiscal 2007, 2006 and 2005, dividing the services into the categories of work performed.

Type of Work	2007 Fees	2007 Percentage	2006 Fees	2006 Percentage	2005 Fees	2005 Percentage
Audit Fees	\$412,050	26.4%	\$236,000	30.8%	\$240,000	31.8%
Audit Related Fees Quarterly review	\$149,400	9.6%	\$129,300	16.8%	\$55,512	7.3%
Tax planning and compliance	\$292,687	18.8%	\$221,132	28.8%	\$273,946	36.2%
Other (Initial public offering, reviews and discussions on accounting matters)	\$704,180	45.2%	\$181,041	23.6%	\$187,000	24.7%

All non-audit services are disclosed to and approved by the Audit Committee.

PROMOTERS

The Predecessor Company may be considered a promoter of the Corporation by reason of its initiative in completing the Reorganization and taking the steps necessary to complete the Initial Public Offering. Prior to the Reorganization, Mr. Jed Wood was the sole holder, directly and indirectly, of all the common shares of the Predecessor Company. Other than as disclosed elsewhere in this AIF and in the December 31, 2007 financial statements of the Corporation, the promoter has not received any benefits, directly or indirectly, from the Corporation.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

Except as set forth below, the Corporation is not party to any legal proceeding nor was it a party to any legal proceedings during the 2007 financial year, nor is the Corporation aware of any contemplated legal proceedings involving the Corporation, its subsidiaries or any of its property which involves a claim for damages exclusive of interest and cost that may exceed 10% of the current assets of the Corporation.

Transeuro

High Arctic LP filed a claim in the Alberta Court of Queen's Bench against Transeuro for approximately \$14.2 million plus interest and costs. The claim demanded payment for services rendered by High Arctic LP in late 2006 and early 2007 for drilling services provided in Canada.

Subsequent to the filing of the High Arctic LP claim, Transeuro filed a claim in the Supreme Court of British Columbia against a different High Arctic subsidiary, High Arctic Energy Services LLC (a United Arab Emirates company). Transeuro claims that High Arctic Energy Services LLC is in default of certain obligations under various agreements and is seeking an unquantifiable amount of relief including a declaration that no amounts are owing for the Canadian drilling services. Transeuro sought a stay of the Alberta action commenced by High Arctic LP on the basis that the action should be consolidated into the

British Columbia action. Transeuro amended its claim on September 17, 2007 to, among other things, add High Arctic LP as a defendant. On October 2, 2007, the stay of the Alberta action was granted. As a result, High Arctic LP and High Arctic Energy Services LLC will dispute and defend the claim against them and bring a counterclaim as against Transeuro for the \$14.2 million related to the drilling services provided in Canada and for substantial amounts (approximately \$15 million) for monies advanced, goods delivered and services rendered in Dubai, Armenia, Ukraine and Papua New Guinea.

The Corporation filed a statement of defence and statement of counterclaim in the Supreme Court of British Columbia on January, 31 2008. The filings serve to consolidate the claim filed by High Arctic Energy Services L.P. in the Court of Queen's Bench of Alberta on May 7, 2007 with the claim filed by Transeuro Energy Corp. on that same date in the Supreme Court of British Columbia. The dispute relates to services provided to Transeuro by subsidiaries of High Arctic in Canada, Armenia, Ukraine and Papua New Guinea. The previous claim filed by High Arctic Energy Services LP related solely to the activities in Canada whereas the Statement of Counterclaim now makes claims for all areas of dispute. High Arctic Energy Services LP provided drilling services in late 2006 and 2007 to Transeuro at a well location in the area of Beaver River, British Columbia. The claim for unpaid services is \$14.2 million. Transeuro has asserted, among other things, that it has been overcharged for the services. The claims outside of Canada relate to services provided by High Arctic Energy Service LLC, a subsidiary located in Dubai, United Arab Emirates. In addition to the claims described below, High Arctic Energy Service LLC 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 providing services exclusively to Transeuro.

The claim in Armenia relates to the purchase and refurbishment of a drilling rig. High Arctic Energy Service LLC supplied the funds to purchase the drilling rig and supplied parts and services to refurbish it with the intention that High Arctic would own the rig and use it to complete a drilling program for Transeuro in Armenia. Transeuro has denied High Arctic access to the rig and has been using the rig in its drilling program. High Arctic Energy Service LLC 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 Energy Service LLC for use on a drilling rig contracted by Transeuro. High Arctic Energy Service LLC 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 claim in Papua New Guinea relates to an agreement to supply a heliportable drilling rig to complete a drilling program for Transeuro. High Arctic proceeded with the purchase of a new build rig and reported an impairment loss of \$7.5million in its September 30, 2007 financial statements. High Arctic Energy Service LLC is seeking damages related to the impairment loss on the rig and cancellation of the drilling contract.

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 been named as a defendant in a number of claims related to services rendered to it as part of the services the Corporation provided to Transeuro at Beaver River. Those claims have all been settled by the Corporation without any material adverse impact.

Regulatory Actions

During the year ended December 31, 2007, there were (i) no penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority; (ii) no other penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision; and (iii) no settlement agreements the Corporation entered into with a court relating to securities legislation or with a securities regulatory body.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than pursuant to the Reorganization, as set out in the consolidated audited financial statements for the year-ended December 31, 2007, or as described herein under "Directors and Officers – Conflicts of Interest", there were no material interests, direct or indirect, of directors and executive officers of the Corporation any Shareholder who is the direct or indirect beneficial owner of, or who exercises control or direction over more than 10% of the Shares, or any known associate or affiliate of such persons in any transaction within the three most recently completed financial years or during the most current financial year which has materially affected or will materially affect the Corporation.

TRANSFER AGENTS AND REGISTRARS

The auditors of the Corporation are PricewaterhouseCoopers LLP, Chartered Accountants, 3100, 111 – 5th Avenue S.W., Calgary, Alberta T2P 5L3.

Computershare Investor Services is the registrar and transfer agent for the common shares at its offices in Calgary, Alberta and Toronto, Ontario.

MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, the only contracts entered into within the most recently completed financial year, or before the most recently completed financial year but still in effect by High Arctic LP, High Arctic Energy or the Corporation which may reasonably be regarded as presently material are:

1. The Revolving Credit Facility and Bridge Loan

The \$120,000,000 amended and restated credit agreement dated as of October 22, 2007 among the Corporation, GE Canada Asset Financing Holding Company and Canadian Western Bank. (as supplemented by a letter agreement dated for reference November 14, 2007) and amended by a first amending agreement dated effective as of February 8, 2008 and amended by a second amending agreement dated effective as of March 10, 2008. In addition, the Corporation entered into a bridge facility credit agreement dated as of July 12, 2007 (as amended by a first amending agreement dated as of October 22, 2007), a second amending agreement dated as of

February 8, 2008 and a third amending agreement dated as of March 10, 2008 for a \$20 million multi draw bridge loan facility.

2. The JV Agreement

On October 29, 2007, the Corporation executed the JV Agreement and the Optimal Joint Venture commenced business operations on January 1, 2008. The JV Agreement contemplates the establishment of legal entities, known as JV Entities, as required and currently Optimal Canada and Optimal Mexico have been incorporated.

The JV Agreement includes non-compete provisions that prohibit High Arctic from carrying on a UBD or MPD business during the term of the joint venture and 36 months thereafter. The non-compete restriction will not affect the Snubbing and the contract drilling and workover businesses carried on by High Arctic.

The JV Agreement includes provisions for the governance of the joint venture and the appointment of an executive committee for the joint venture to provide overall direction to the joint venture and oversee the JV Entities. In particular, the JV Agreement provides, among other things, that each of High Arctic and Schlumberger will be entitled to nominate two (2) members of the executive committee and two (2) directors to the board of each of the JV Entities and that the first Chairman of the executive committee will be Jed M. Wood.

The JV Agreement provides that certain matters will require the approval of both of the joint venture parties. These matters include the approval of budgets that will form the basis for future capital contributions by the joint venturers and distributions of excess funds to the joint venturers. Accordingly, the JV Agreement provides High Arctic with control over its future capital commitments relating to the JV Entities.

The joint venture will have its own management team to be appointed by the executive committee. Schlumberger has reserved the exclusive right to appoint certain of the positions, including the Chief Executive Officer and Chief Financial Officer. An administrative office of the joint venture is initially expected to be set up in Calgary, Alberta. Additional offices will be set up in other countries as appropriate to meet the needs of the JV Entities and the location of the management will be based on the requirements of the business. During a transitional period of up to six months after closing, High Arctic will provide general and administrative services until the joint venture can establish its own service capability;

3. The Put & Call Agreement between the Corporation and Schlumberger

In accordance with the terms of the JV Agreement, the Corporation entered into a Put & Call Agreement dated January 1, 2008 with Optimal Canada, Optimal Mexico and Schlumberger Pursuant to the terms of the Put & Call Agreement Schlumberger grants to the Corporation an irrevocable right and option to require Schlumberger to purchase from it all of the securities the Corporation owns in any JV Entity, any time after the first anniversary of the effective date being January 1, 2008, for an aggregate purchase price equal to 115% of the fair market value. Conversely, the Corporation grants to Schlumberger an irrevocable right and option to require the Corporation to sell all of the securities it owns in the JV Entity for an aggregate purchase price equal to 130% of the fair market value, any time after the first anniversary of the effective date or on the occurrence of any of the following: (i) a change of control; (ii) an entity that is engaged in

one or more of the businesses of Schlumberger or its affiliates becomes an insider of the Corporation; (iii) the Corporation experiences a distress event (which includes events such as: inability to pay liabilities; any assets are seized; proceedings instituted for dissolution or winding up; petition into bankruptcy); (iv) any JV Entity experiences a distress situation; or (v) the Corporation competes with the business activities of a JV Entity.;

4. The Debentures Placing

Effective October 26, 2007, the Corporation entered into an underwriting agreement with Canaccord Capital Corporation (“Canaccord”) to issue the Debentures. On November 13, 2007, the Corporation closed the Debenture Placing of \$23.0 million of Debentures to qualified investors in the UK and accredited investors in the USA. On November 20, 2007, Canaccord exercised a portion of the over-allotment option granted in connection with the Debenture Placing, resulting in the additional issuance of an aggregate of \$4.9 million of Debentures. The total gross proceeds of the Debenture Placing, including the exercise of the over-allotment option, were \$27.9 million.

The primary terms of the Debentures issued pursuant to the Debenture Placing are as follows:

- (a) the Debentures are due December 31, 2012;
- (b) the Debentures bear interest at the rate of 12.0 percent per annum, provided that once the CLR is equal to or less than 5.0, the interest rate shall be lowered to 10.0 percent per annum;
- (c) the Debentures are unsecured obligations of the Corporation;
- (d) the Corporation may elect to pay the principal amount of the Debentures by the issuance of Common Shares to the holders of such Debentures on the maturity date, with such Common Shares having a deemed price equal to the twenty day volume weighted average trading price of the Common Shares on the TSX;
- (e) at any time after November 13, 2010, the Corporation may redeem the Debentures in whole or in part at a redemption price which is equal to \$1,050 per \$1,000 principal of Debentures if the redemption date is on or before November 14, 2011 or \$1,025 per \$1,000 principal of Debentures if the redemption date is after November 15, 2011;
- (f) at any time prior to the maturity date, a holder of Debentures may convert the principal amount of such Debentures into Common Shares, at a conversion price equal to \$1.62 per share (subject to customary adjustment provisions); and
- (g) within twenty days following a change of control of the Corporation, the Corporation shall offer to repay the principal amount and interest owing on all Debentures.;

INTEREST OF EXPERTS

There is no person or company whose profession or business gives authority to a statement, report or valuation made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Corporation during, or related to, the Corporation's most recently completed financial year other than PricewaterhouseCoopers LLP, the Corporation's auditors. To the knowledge of the Corporation: (i) PricewaterhouseCoopers LLP did not have any registered or beneficial interests, direct or indirect, in any securities or other property of the Corporation or of the Corporation's associates or affiliates either at the time they prepared the statements, report or valuation prepared by them, at any time thereafter or received by them, and (ii) neither PricewaterhouseCoopers LLP nor any director, officer or employee of PricewaterhouseCoopers LLP is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or any associate affiliate of the Corporation.

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans is contained in the Information Circular of the Corporation for its most recent annual meeting of Unitholders that involved the election of directors of the Corporation. Additional financial information is contained in the Corporation's audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2007.

SCHEDULE A

HIGH ARCTIC ENERGY SERVICES INC.

AUDIT COMMITTEE TERMS OF REFERENCE

1. Constitution

Pursuant to the Business Corporations Act (Alberta), the bylaws of High Arctic Energy Services Inc. (the "Corporation"), and in intended compliance with applicable corporate and securities laws and the requirements of the Toronto Stock Exchange, there is hereby constituted, as a standing committee of the Board, a committee designated as the "Audit Committee" (the "Committee") which Committee is delegated the powers and subject to the terms of reference hereinafter set forth.

2. Mandate

The mandate of the Committee shall be to assist the Board in fulfilling its oversight responsibilities in respect of: (i) the adequacy, integrity and effectiveness of the Corporation's and its subsidiaries (collectively, "High Arctic") financial reporting process and financial statements, including, without limitation, the adequacy, integrity and effectiveness of internal financial and management controls and systems; and the adequacy and integrity of the audit process; and (ii) risk management for High Arctic, including, without limitation, the adequacy, integrity and effectiveness of risk management systems and reporting, in addition to any mandate or function prescribed by applicable law, regulation or rule to be discharged by a Committee constituted as the audit committee of an entity such as High Arctic.

3. Organization and Operation

- (1) The Committee shall be comprised of a minimum of three (3) members of the Board.
- (2) Each of the members of the Committee shall be "unrelated directors", "outside directors" and "financially literate", as such terms are defined from time to time pursuant to the Governance Guidelines of the Toronto Stock Exchange and, to the extent practicable, the Committee shall include at least one member who may reasonably be regarded as a financial expert. In addition, each of the members of the Committee shall be "independent" and "financially literate" as required by Multilateral Instrument 52-110 or any rule or instrument implemented in substitution or addition thereto.
- (3) A majority of the members of the Committee shall be residents of Canada.
- (4) The Committee shall have the power to appoint its chairman, who must be a resident of Canada.

- (5) Any member of the Committee or the auditors of the Corporation (the “auditors”) may call a meeting of the Committee upon not less than 48 hours’ notice to the other members of the Committee.
- (6) The auditors of the Corporation are entitled to receive notice of every meeting of the Committee and, at the expense of the Corporation, to attend and be heard thereat and, if so requested by a member of the Committee, shall attend any meeting of the Committee held during the term of office of the auditors.
- (7) The Committee shall meet at least four times annually.
- (8) A quorum for meetings of the Committee shall be a majority of its members, provided that a majority of the members of the Committee comprising such quorum must be residents of Canada.
- (9) Questions arising at any meeting of the Committee shall be decided by a majority of the votes cast.
- (10) The rules for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those governing meetings of the Board or as- otherwise provided in the by-laws of the Corporation.
- (11) Except as set forth herein, the Committee may determine its own rules of procedure.

4. Duties and Responsibilities

In the discharge of its mandate, the Committee shall:

Corporate Information and Internal Control

- (1) Review and recommend for approval by the Board annual and quarterly financial statements, and all financial information in any prospectus, offering memorandum, annual information form, management’s discussion and analysis (“MD&A”) or annual report of the Corporation;
- (2) Review and make recommendations with respect to information and control systems of High Arctic;
- (3) Review and approve all major changes to information and control systems of High Arctic;

- (4) Review and approve spending authorities and approval limits of officers of High Arctic;
- (5) Review and approve all determinations made in respect of significant accounting and tax compliance issues;
- (6) Review all significant financial, accounting and tax issues in connection with proposed non-recurring events such as mergers, acquisitions or divestitures;
- (7) Review and approve all press releases or other publicly circulated documents containing financial information;

Auditors

- (8) Make recommendations to the Board in respect of the auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for High Arctic, in respect of the terms of retainer of the auditors and, as determined desirable or necessary, in respect of the replacement of the auditors (subject to shareholder notification and approval);
- (9) Review the terms of the auditors' engagement and make recommendations to the Board as to the compensation of the auditors;
- (10) Oversee the work of auditors engaged for the purposes of preparing or issuing an audit report or performing other audit, review or attest services for High Arctic, including the resolution of disagreements between management and the auditors regarding financial reporting;
- (11) Annually, obtain and review a report by the auditors of the Corporation's internal quality control procedures and systems;
- (12) Review and make recommendations in respect of any material issues raised by any internal quality control review (or peer review) of High Arctic or by any inquiry or investigation by governmental or professional authorities;
- (13) Annually, evaluate the auditors' qualifications, performance and independence;
- (14) Annually, to assure continuing auditor independence, consider the rotation of lead audit partner or the auditor itself;

- (15) Where there is a change of auditor, review all issues related to the change, including information to be included in the notice of change of auditors (National Policy No. 31 as adopted by the Canadian Securities Regulatory Authorities (“NP31”)), and the planned steps for an orderly transition;
- (16) Review all reportable events, including disagreements, unresolved issues and consultations, as defined in NP 31, on a routine basis, whether or not there is a change of auditors;
- (17) Pre-approve engagements for non-audit services provided by the auditors or their affiliates, together with estimated fees and potential issues of independence;
- (18) Set hiring policies for partners, employees and former partners and employees of the present and former auditors;
- (19) At least annually, separately interview management and the auditors to discuss the relationship between them, especially as regards to the competency, communication, access provided and cooperation displayed in matters relating to the audit and the financial affairs of High Arctic;
- (20) Establish procedures for:
 - (a) the receipt, retention and treatment of complaints received by High Arctic regarding accounting, internal accounting controls, or auditing matters; and
 - (b) the confidential, anonymous submission by employees of High Arctic of concerns regarding questionable accounting or auditing matters;
- (21) Monitor changes to applicable laws, regulations and rules and industry standards and practices with respect to financial reporting;

Audit

- (22) Review with management and the auditors the audit plan for the coming year;
- (23) Review with management and the auditors any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgments of management that may be material to financial reporting;

- (24) Separately interview management and the auditors regarding significant financial reporting issues during the fiscal period and the method of resolution;
- (25) Review any problems experienced by the auditors in performing the audit, including any restrictions imposed by management or significant accounting issues in which there was a disagreement with management;
- (26) Review annual and quarterly financial statements with management and the auditors (including disclosures under MD&A), in conjunction with the report of all significant variances between comparative reporting periods;
- (27) Review and make recommendations as to the auditors' report to management and management's response and subsequent remedy of any identified weaknesses;

Risk Management and Controls

- (28) Provide oversight in respect of risk management policies and practices, including the identification of major business risks and the processes and other steps taken to mitigate such risks;
- (29) Review and make recommendations as to hedging strategies, policies, objectives and controls;
- (30) Review, not less than quarterly, a mark to market assessment of High Arctic's hedge positions and counter party credit risk and exposure;
- (31) Review High Arctic's risk retention philosophy and resulting exposure to the Corporation;
- (32) Review the adequacy of insurance coverage;
- (33) Review loss prevention policies and programs in the context of competitive and operational considerations;
- (34) Review and recommend for approval the annual operating and capital budgets of High Arctic and any amendments thereto;
- (35) Annually review authority limits for capital expenditures; and

- (36) Review all pending litigation involving High Arctic and assess the prospective exposure to High Arctic.

Other Duties and Responsibilities

The responsibilities, practices and duties of the Committee outlined herein are not intended to be comprehensive. The Board may, from time to time, charge the Committee with the responsibility of reviewing other items of a financial or control nature or a risk management nature.

The Committee shall periodically report to the Board decisions taken in exercise of powers conferred herein and the results of reviews undertaken and any associated recommendations.

5. Authority

The Committee shall have all power and authority necessary or desirable to fully and effectively discharge its mandate hereunder and, in that connection and without limitation, the Committee may:

- (1) Investigate any corporate activity, in any area, that the Committee considers necessary or advisable, and, for such purposes and the performance of its other responsibilities, the Committee shall have unrestricted access to all personnel records of High Arctic, the auditors and all other advisors to High Arctic and, from time to time, may require the Chief Financial Officer to report to the Audit Committee;
- (2) Make any recommendation to the Board, as it considers necessary or advisable, in respect of matters within its mandate, provided, however, that where the Committee intends to make any such recommendation, the recommendation shall first be presented to the Lead Director and, in respect of financial matters, to the auditor for comment before being communicated to the Board, unless the Committee concludes that such action would not be in the best interest of High Arctic and/or the shareholders; and
- (3) Engage and obtain the advice of outside advisors if necessary to properly discharge its functions, duties and responsibilities including, without limitation:
 - (a) to engage independent counsel and other advisors as it determines necessary to carry out its duties;
 - (b) to set and pay the compensation for any advisors employed by the Committee;

and

- (c) to communicate directly with the auditors.

6. Limitation

The foregoing is (i) subject to and without limitation of the requirement that in exercising their powers and discharging their duties the members of the Board act honestly and in good faith with a view to the best interests of the Corporation; and (ii) subject to and not in expansion of the requirement that in exercising their powers and discharging their duties the members of the Board exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.