



Message to Our Shareholders

At the beginning of 2008 High Arctic committed itself to an ambitious restructuring plan. The plan called for High Arctic to reduce debt and improve efficiencies in core operations relying primarily on internal resources.

Over the past year, the global financial crisis has changed the business paradigm. This magnifies the challenges for High Arctic while reinforcing management's decision to embark on the restructuring process.

The board and management of High Arctic are proud of the significant strides made in 2008, both operationally and financially. Our senior credit facility has been reduced by \$32.5 million down to \$93.9 million. Equally important, we have largely shutdown our unprofitable activities in the Middle East, Tunisia and India and elsewhere so we can focus on our core businesses in Canada and Papua New Guinea. The management team is unified and more committed than ever to successfully reaching our goals.

In last year's message to our shareholders, we identified the following specific goals for 2008:

- Increase EBITDA to over \$30 million for 2008. Although the actual EBITDA was slightly short at \$26.9 million, the EBITDA excluding the losses from discontinued operations was \$32.9 million, demonstrating the success of our core businesses.
- Reduce debt through the sale of under-performing assets. We successfully completed asset sales of over \$29 million despite the global challenges of the credit crisis.
- Achieve a debt to EBITDA leverage ratio below 3.5 to 1.0. The year end leverage ratio of 3.26 to 1.0 is within that target.
- Grow our Optimal joint venture. Our 51% share of revenue was \$8.7 million for 2008. While that was a very nice result for the first year of a start-up, both revenue and profitability were below expectations.
- Implement cost reductions to restore profit margins. Our improved operating earnings show our achievement in this area.

All in all, we think the results demonstrate our success in delivering on our goals during 2008.

We are fortunate to have taken action early, as the year 2009 is shaping up to be a very difficult one in our industry. Overall industry activity in Canada during the first quarter of 2009 is expected to be off by somewhere around 40% and we are feeling the impact on our revenue. We have already taken proactive steps aimed at bringing our costs and staffing levels in line with the reduced activity. In February 2009 we reduced our staff and implemented compensation reductions, rather than waiting for spring break up. We are seeing a push by the oil industry to rollback some of the inflationary pressures of past years and more steps will be taken by us to ensure we remain competitive and maintain our market share.

Nevertheless, we remain optimistic that a real world approach to our business will continue to yield progress on our restructuring plan. We believe we will exit 2009 substantially stronger than we entered it, with improving economic conditions lessening the current headwinds we face.

Of our international operations, our business in Papua New Guinea has been our most successful. We believe it will continue to deliver a relatively solid performance in 2009, but it too is facing challenges to reduce costs and manage a lower volume of work.

Our planned asset sales also face a scarcity of buyers as the global credit problems and reduced worldwide oilfield activity affect markets. Nevertheless, we have some marketable assets even in today's market and we need to deal with those assets that are the most marketable. Our goal is to further reduce our debt by at least \$30 million in 2009.

Maintaining the goodwill of our lenders continues to be of prime importance. We would characterize our relationship with the lenders as very constructive and they have been supportive of our restructuring plans. Lenders have their own challenges and we must continue to reduce our debt in order to normalize our situation. Our leverage ratio is down significantly. However, current credit market conditions have moved the goal posts and dictate that we bring our senior debt to EBITDA ratio below two to one. In spite of continued progress on debt reduction, we may not reach this revised target in 2009, in the face of deteriorating industry conditions.

Our cash balance at the end of 2008 was \$22.2 million. Most of that cash is targeted for specific purposes. We believe that we have sufficient liquidity based on our updated business plan for 2009 and we will consider steps to replenish our liquidity cushion.

We had hoped that the High Arctic shareholders would have already seen some of the past year's efforts reflected in the share price. The current market environment has created a high level of uncertainty and is presently challenging to all publicly traded entities, including High Arctic. Management and your Board of Directors will continue to diligently work to execute the restructuring plan. We wish to thank our employees, customers, suppliers and, most importantly, our shareholders for their perseverance during these difficult and challenging times. We remain committed to overcome current circumstances and creating long-term value for our shareholders.