PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
111 5 Avenue SW, Suite 3100
Calgary, Alberta
Canada T2P 5L3
Telephone +1 403 509 7500
Facsimile +1 403 781 1825

March 9, 2010

Auditors' Report

To the Shareholders of
High Arctic Energy Services Inc.

We have audited the consolidated balance sheets of **High Arctic Energy Services Inc.** as at December 31, 2009 and 2008 and the consolidated statements of net earnings (loss), comprehensive income (loss) and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Canada

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

High Arctic Energy Services Inc.

Consolidated Balance Sheets

As at December 31, 2009 and 2008

($ Million - Audited)

	December 31, 2009	**December 31, 2008**
Assets		
Current assets		
Cash and cash equivalents	27.6	18.9
Accounts receivable (Note 12)	14.5	23.0
Inventory	2.8	2.1
Prepaid expenses	1.1	0.9
Assets related to Optimal discontinued operations (Note 15)	-	8.0
Assets related to Middle East discontinued operations (Note 15)	0.6	5.1
	46.6	58.0
Property and equipment (Note 3)	47.6	62.4
Assets held for sale including assets related to discontinued operations in the Middle East and Optimal (Notes 3 and 15)	16.6	46.0
	110.8	166.4
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	14.9	18.3
Income taxes payable	0.4	9.4
Due to related parties (Note 8)	7.0	6.3
Credit facility and bridge loan (Note 4)	65.4	93.4
Future income tax liabilities (Note 9)	0.7	0.2
Liabilities related to Optimal discontinued operations (Note 15)	-	1.8
Liabilities related to Middle East discontinued operations (Note 15)	0.3	1.5
Convertible Debentures (Note 5)	27.9	25.8
	116.6	156.7
Shareholders' equity (Note 6)	(5.8)	9.7
	110.8	166.4

Basis of presentation (Note 1)

Commitments and contingencies (Notes 10)

See accompanying notes

Approved on behalf of the Corporation by:

(signed) "*Michael Binnion*" Director

(signed) "*Christopher Warren*" Director

High Arctic Energy Services Inc.

Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the years ended December 31, 2009 and 2008

($ Million except per unit amounts - Audited)

	2009	**2008**
Revenue (Note 13)	122.6	145.0
Expenses		
Oilfield services	84.7	98.1
General and administration	7.8	13.7
Share based compensation	0.4	3.3
Write-down of long term receivable	-	0.2
Amortization	9.3	12.8
Foreign exchange (gain) loss	6.4	(8.1)
	108.6	120.0
Operating earnings	14.0	25.0
Interest	11.3	20.6
Financing Costs	0.3	1.3
(Gain) loss on sale of property, equipment and investments	(0.9)	2.1
(Gain) loss on the sale of joint venture interest (Note 15b)	(2.4)	-
Impairment on assets held for sale and property and equipment (Note 3)	11.8	20.0
Loss before income taxes and discontinued operations	(6.1)	(19.0)
Income taxes (Note 9)	7.2	5.3
Loss from continuing operations	(13.3)	(24.3)
Middle East Discontinued Operations, net of tax (Note 15a)	(0.8)	(8.0)
Optimal Discontinued Operations, net of tax (Note 15b)	(2.4)	(7.3)
Loss and comprehensive loss	(16.5)	(39.6)
Deficit – beginning of period	(125.2)	(85.6)
Deficit– end of period	(141.7)	(125.2)
Loss per share		
- basic and diluted from continuing operations	$ (0.29)	$ (0.57)
- basic and diluted from discontinued operations	$ (0.07)	$ (0.36)
- basic and diluted from operations	$ (0.36)	$ (0.93)

Basis of presentation (Note 1)

See accompanying notes

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

($ Million - Audited)

Cash provided by (used in):	**2009**	**2008**
Operating activities		
Loss from continued operations	(13.3)	(24.3)
Add non-cash items:		
Amortization	9.3	12.8
Financing accretion and amortization	2.6	7.5
Share-based compensation	0.4	3.3
Impairment on assets held for sale	11.8	20.0
Future income tax	0.5	0.7
(Gain) loss on sale of property and equipment	(0.9)	2.1
(Gain) on the sale of joint venture interest (Note 15b)	(2.4)	-
	8.0	22.1
Change in non-cash working capital balances (Note 14)	(4.6)	13.3
Cash flows from continuing operating activities	3.4	35.4
Investing activities		
Property and equipment and rigs and equipment under construction	(3.6)	(8.0)
Advances from (to) Optimal Drilling	1.0	(1.0)
Proceeds on sale of property and equipment	1.3	13.7
Proceeds on sale of joint venture interest (Note 15b)	23.5	-
Change in non-cash working capital balances (Note 14)	(0.2)	-
	22.0	4.7
Financing activities		
Advances from related parties	0.7	0.9
Change in credit facility	(28.5)	(32.5)
Issuance of shares, net of costs	0.6	-
	(27.2)	(31.6)
Net change in cash from continuing operations	(1.8)	8.5
Cash flow from discontinued operations		
Operating activities	4.7	(14.3)
Investing activities		
Proceeds on sales of property and equipment	3.9	18.8
Property and equipment and rigs and equipment under construction	(1.4)	(11.8)
Net change in cash from discontinued operations	7.2	(7.3)
Net increase in cash and cash equivalents	5.4	1.2
Cash and cash equivalents – beginning of period	22.2	21.0
Cash and cash equivalents – end of period	27.6	22.2
Cash reported as assets related to discontinued operations	-	(3.3)
Cash and cash equivalents	27.6	18.9
Supplemental information		
Cash paid for:		
Interest	4.9	14.2
Income taxes	14.3	0.0

Basis of presentation (Note 1)

See accompanying notes

1 Basis of Presentation

High Arctic Energy Services Inc. (the "Corporation" or "HAES") is incorporated under the laws of Alberta, Canada, with a principal focus to provide contract drilling and workover services and other oilfield services to the oil and gas industry in Canada and other countries. The Corporation's Canadian operations are considered to have some seasonality with peak levels in the first and fourth quarters.

Going Concern

These audited consolidated financial statements are stated in Canadian dollars and have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") on a going concern basis. The going concern basis presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Corporation's ability to continue as a going concern is dependent upon cash flow from operations remaining adequate to meet the cash requirements of the business, notwithstanding an expectation of continued reduced activity levels in the industry, as well as obtaining further extensions for repayment of its outstanding debt. The Corporation's senior credit facility matured on June 12, 2009 and a demand for payment can be made at any time by the lenders. In addition, the Corporation has not paid the June 30, 2009 and December 31, 2009 interest payments due on the Convertible Debentures, so the debenture holders can accelerate the maturity date. The Corporation must negotiate an extension to its credit facilities and expects that it may have to restructure the Convertible Debentures and other unsecured debt to achieve an extension. While the Corporation is focusing its best efforts on these matters, there are no assurances that management will be successful in such initiatives. There is a significant risk regarding the Corporation's ability to continue as a going concern. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Corporation be unable to continue in business and, therefore, be unable to realize its assets and discharge its liabilities in the normal course of business. Such adjustments could be material.

2 Accounting Policies

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include the amortization of property and equipment, recoverability of accounts receivable, valuation of unit-based compensation, accruals for contingencies, valuation of the convertible debenture components, future tax valuation allowance and impairment of property and equipment. Accordingly, actual results could differ from estimated amounts as future confirming events occur and the impact could be material.

Principles of Consolidation

These financial statements represent the accounts of the Corporation and its wholly-owned subsidiary partnership, High Arctic Energy Services LP, and its principal wholly-owned foreign operating subsidiaries – High Arctic Energy Cyprus Ltd., High Arctic Energy Services PNG Limited, High Arctic Energy Services PTY Ltd, and High Arctic Energy Services LLC – and all other wholly-owned subsidiaries.

Investments in joint ventures were accounted for using the proportionate consolidation method, whereby the Corporation's proportionate shares of revenues, expenses, assets and liabilities were included in the accounts. The Corporation held an investment in a joint venture (Note 15b) that was accounted for using the proportionate consolidation method.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and short-term market investments that are highly liquid in nature and have an original maturity date of less than three months.

Inventory

Inventory consists primarily of operating supplies and spare parts not held for sale and is valued at the lower of average cost and net realizable value.

Financing Costs

Costs incurred to negotiate new debt or modify existing debt prior to its issuance are deferred and amortized over the term of the related debt provided the receipt of funding is probable. After the facility is operative, such costs are deducted from the related debt and amortized using the effective interest rate method. Any financing costs pertaining to negotiations that are subsequently abandoned are expensed at the time of abandonment.

Property and Equipment

Property and equipment are recorded at cost less accumulated amortization. Equipment is amortized using the declining balance method over their estimated useful lives at the following rates:

Automotive	30%
Computer hardware	30%
Computer software	100%
Equipment – rental, support and shop	10-30%
Equipment - drilling support	10%
Equipment - hydraulic workover rigs and UB rigs	10-30%
Equipment – stand alone, rig assist and nitrogen pumping	10-30%
Equipment - office	20%
Leasehold improvements	Lease term or five years

Management assesses the carrying amount of property and equipment for impairment when events indicate the carrying amount may not be recoverable. In such circumstances, an impairment loss is recognized in income for the amount by which the carrying amount exceeds fair value determined using an estimate of discounted future cash flows of operating equipment attributed to the property and equipment. If the asset has been classed as held for sale, the fair value is determined as the estimated sales value.

Rigs and Equipment Under Construction

Design and construction costs related to equipment under construction, including all costs to prepare the asset for its intended use and interest capitalized during the construction period, are recorded as rigs and equipment under construction and are not subject to amortization until the asset is placed into service.

Investments

Investments in other companies over which the Corporation does not have significant influence are accounted for by the cost method. Investments are written down to their net realizable value should a decline in value occur that is other than temporary.

Income Taxes

The Corporation and its subsidiaries use the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined for the income tax consequences attributable to differences between amounts recorded in the financial statements and their respective tax basis, using substantially enacted tax rates. The effect of any change in income tax rates on future tax assets and liabilities is recognized in earnings in the period that the change occurs. To the extent that the Corporation does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Research and Development

Research and development expenditures are expensed as incurred unless recovery of costs associated with the development of new tools and systems can be reasonably assured, given existing and anticipated future industry conditions and assuming all other development cost deferral criteria have been met, in which case the costs are deferred and amortized.

Employee Benefit Plans

The Corporation provides a defined contribution pension plan for employees. Contributions by the Corporation are expensed when contributed. The Corporation has no other post-retirement benefit plans.

Foreign Currency Translation

The Corporation uses the Canadian dollar as its functional currency. Revenues and expenses denominated in foreign currencies are translated at the rate of exchange in effect on the date of the transaction.

The financial statements of the Corporation's foreign subsidiaries are translated using the temporal method. Monetary assets and liabilities of integrated foreign operations are translated using the rate of exchange in effect at the balance sheet date, whereas non-monetary assets and liabilities are translated at historical rates of exchange. Revenues and expenses are measured at average monthly exchange rates, except for amortization, which is determined using the historical exchange rate. Gains and losses resulting from translation are included in the statement of income loss.

Revenue Recognition

The Corporation's services include fixed or determinable prices based upon daily, hourly or job rates. The sales terms do not include provisions for significant post-service delivery obligations. Revenue is recognized when services are rendered or over equipment rental periods, and when collection is reasonably assured. Mobilization revenue is earned under certain contracts and is generally payable to the Corporation upon successful commencement of operations under the contract. For a contract that includes this element in addition to the normal fee for service element, revenue is allocated to each element of the contract based on the residual method and using the estimated fair value of the elements delivered. The value of the undelivered elements is deferred and recognized when earned. The Corporation defers prepaid mobilization revenues and recognizes them at the time the related services are performed using the percentage of completion method. Revenue for services under the contract are recognized as the service is provided based upon the fair value of the services.

Share-based Compensation Plans

The Corporation has a Share Option Plan which is described in Note 7. The fair value of share purchase options is calculated at the date of the grant using the Black-Scholes option pricing model. The value is recorded as compensation expense over the grant's vesting period, with an offsetting credit to contributed surplus. Upon exercise of the share purchase option, the associated amount is reclassified from contributed surplus to share capital. Consideration received from employees upon exercise of options is credited to shareholders' capital.

Per Share Amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if stock options, warrants and convertible debentures were exercised or converted into common shares.

Transaction Costs on Debt Issuance

The Corporation requires costs related to obtain debt financing be deducted from the related debt and amortized over the term of the debt as interest expense using the effective interest rate method.

Financial Instruments

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

A) Held for trading

Held for trading financial instruments are financial assets or financial liabilities that are purchased with the intention of selling or repurchasing in the near term. Any financial instrument can be designated as held for trading as long as its fair value can be reliably measured. A derivative is classified as held for trading unless designated as and considered an effective hedge. Held for trading instruments are recorded at fair value with any subsequent gains or losses from changes in the fair value included in earnings.

B) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Corporation has the intent and ability to hold to maturity.

These financial assets are measured at amortized cost using the effective interest method. Any gains or losses arising from the sale of a held-to-maturity investment are included in earnings. All of the Corporation's cash equivalents are designate as held-to-maturity investments. The fair value of cash and cash equivalents approximate their carrying value due to their short-term nature.

C) Other financial liabilities

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

D) Loans and receivables

Items classified as loans and receivables in the Corporation's financial statements are accounted for at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are included in earnings. The fair value of accounts and other receivables and the demand portion of any amounts due from related parties approximate their carrying values due to the short-term nature of these instruments.

E) Available-for-sale

Available-for-sale assets are those financial assets that are not classified as held for trading, held-to-maturity or loans and receivables. Available-for-sale instruments are recorded at fair value. Any gains or losses arising from the change in fair value are recorded in Other Comprehensive Income and upon the sale of the instrument or other-than-temporary impairment, the cumulative gain or loss is include in earnings.

F) Derivative financial instruments

A derivative is a financial instrument whose value changes in response to a specified variable, requires little or no net investment and is settled at a future date. An embedded derivative is a derivative that is part of a non-derivative contract and not directly related to that contract. Embedded derivatives that are

not closely related to the host contract must be accounted for as a separate financial instrument. A non-financial derivative is a contract that can be settled net in cash or another financial instrument.

Fair values are based upon quoted market prices available from active markets or are otherwise determined using a variety of valuation techniques and models using quoted market prices.

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

Changes in Accounting Policy

New Accounting Policies

The Corporation adopted the following sections from the Canadian Institute of Chartered Accountants ("CICA") handbook:

- Goodwill and Intangible Assets – Section 3064 – The CICA issued the new Handbook Section 3064, Goodwill and Intangible Assets, which will replace Section 3062, Goodwill and Other Intangible Assets. The adoption of this standard has had no material impact on the Financial Statements.

- Credit risk and fair value of financial assets and liabilities Emerging Issues Committee abstract 173 is effective on January 1, 2009 and requires entities to take both counterparty and their own credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. The recommendations of EIC-173 are effective for interim and annual reporting periods in 2009 and were applied retrospectively, without restatement of prior periods. The application of the EIC recommendations did not have a material effect on the Corporation's financial statements.

- The CICA amended CICA Handbook Section 3862 that requires additional disclosures about the fair value measurements of financial instruments and enhances liquidity risk disclosures. The application of this amendment is for all periods ending after September 30, 2009. The adoption did not have a material impact on its consolidated financial position, results of operations or cash flows.

Future Accounting Changes

For interim and annual financial statements relating to its fiscal year commencing July 1, 2011, the Corporation will be required to adopt new CICA Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests". Section 1582 replaces existing Section 1581 "Business Combinations", and Sections 1601 and 1602 together replace Section 1600 "Consolidated Financial Statements." The adoption of Section 1582 and, collectively, 1601 and 1602, provides the Canadian equivalent to IFRS 3 "Business Combinations" and International Accounting Standard IAS 27 "Consolidated and Separate Financial Statements" respectively The impact of adopting these new standards has not yet been assessed and cannot reasonably be estimated at this time.

Comparative Figures

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

3 Property and Equipment

	December 31, 2009		
	Cost	Accumulated Amortization	Net
Automotive	3.0	1.3	1.7
Computer hardware	0.5	0.3	0.2
Computer software	0.9	0.7	0.2
Equipment – rental, support and shop	9.9	5.4	4.5
Equipment – drilling support	9.7	4.8	4.9
Equipment – hydraulic workover and UB rigs	28.3	17.9	10.4
Equipment – stand alone, rig assist and nitrogen pumping	55.7	31.3	24.4
Equipment – office	0.5	0.4	0.1
Leasehold improvements	0.4	-	0.4
Rigs and equipment under construction	0.8	-	0.8
	109.7	62.1	47.6

	December 31, 2008		
	Cost	Accumulated Amortization	Net
Automotive	3.1	1.0	2.1
Computer hardware	0.5	0.3	0.2
Computer software	0.8	0.6	0.2
Equipment – rental, support and shop	11.3	5.3	6.0
Equipment – drilling support	9.6	2.3	7.3
Equipment – hydraulic workover and UB rigs	36.0	13.6	22.4
Equipment – stand alone, rig assist and nitrogen pumping	47.3	23.8	23.5
Equipment – office	0.5	0.2	0.3
Leasehold improvements	0.9	0.8	0.1
Rigs and equipment under construction	0.3	-	0.3
	110.3	47.9	62.4

The Corporation has provided for an impairment of $ 11.8 million (2008 - $ 20.0 million) related to:

(a) equipment classified as assets held for sale that was sold on January 13, 2010 (Note 16) resulting in additional write-downs on a heli-portable rig of $ 0.1 million (2008 - $ 2.1 million) and on a RAPAD Rig of $ 3.1 million (2008 - $ 0.5 million);

(b) other equipment classified as assets held for sale resulting in a write-down of $ 1.8 million; and

(c) equipment used in the operations resulting in a write-down of $6.8 million (2008 - $ 11.8 million) primarily related to its three 250K UB rigs.

Management assessed the property and equipment balances for evidence of impairments using indicators such as declining market activity, changes in future expected cash flows from operations and, where appropriate, expected costs of disposition.

Evidence of impairment was assessed using an undiscounted cash flow test and where the net book value exceeded the undiscounted cash flow analysis a determination of the assets' fair market value was estimated.

The estimated fair market value was assessed by management using internal experts. The measurement of the impairment was assessed as the amount by which the carrying amount of an asset exceeded its fair market value.

In addition to the amounts reported in property and equipment at December 31, 2009, the Corporation had property and equipment classified and recorded as assets held for sale including assets related to discontinued operations of $16.6 million (December 31, 2008 - $46.0 million). The following amounts are included in the balance:

Assets held for sale including assets related to discontinued operations	**December 31, 2009**	**December 31, 2008**
Equipment Held for Sale in Canada	9.6	10.4
Equipment held for sale related to discontinued operations from the Middle East (Note 15a)	7.0	14.6
Equipment held for sale related to discontinued operations from Optimal Pressure Drilling Services (Note 15b)	-	21.0
	16.6	46.0

4 Revolving Credit Facility and Bridge Loan

The Corporation has a revolving credit facility with a syndicate of commercial lenders that matured on June 12, 2009. The Corporation has been seeking an extension of the facility as part of its efforts to restructure its loan obligations. The Corporation does not have the capacity to repay the Senior Consolidated Debt (as defined below) should the lenders demand payment (See Note 1). The lenders can demand payment of the entire Senior Consolidated Debt as a result of such debt having matured on June 12, 2009. No further draws may be made on any of the facilities.

The facility is structured as a $20-million revolving loan ("Facility A") and a $100-million equipment-based revolving loan ("Facility B"). Facility A is a maximum of the lesser of $20-million and the total of 75% of eligible Canadian accounts receivable aged less than 90 days and 90% of eligible foreign receivables insured by the Export Development Canada (the "Facility A Borrowing Base"). Facility B is a maximum of the lesser of $100-million and 75% of the appraised orderly liquidation value of eligible equipment (the "Facility B Borrowing Base"). The Corporation also entered into a bridge facility credit agreement with one of the lenders dated July 12, 2007 for a $20-million bridge loan facility (the "Bridge Loan"). The obligations under the revolving credit facility and the Bridge Loan are secured by, among other things, the pledge of accounts receivable and the eligible equipment pursuant to debentures under which the Corporation and its subsidiaries grant security over all of their respective assets.

As at December 31, 2009, the Corporation owed approximately $2.6 million on Facility A (2008 – $4.2 million), $42.8 million on Facility B (2008 - $69.7 million) and $20.0 million on the Bridge Loan (2008 – $20.0 million) (the aggregate amounts owing on Facility A, Facility B and the Bridge Loan are herein referred to as the "Senior Consolidated Debt"). Accordingly, the Senior Consolidated Debt was approximately $65.4 million at December 31, 2009 (December 31, 2008 - $93.9 million excluding debt issue costs that were offset against the amount reported on the balance sheet). The interest rate applicable to all prime loans under the revolving credit facility is prime plus 2% for amounts drawn up to 2.75x consolidated earnings before interest, depreciation, amortization and taxes and prime plus 4% for the excess drawn over the 2.75x amount. The interest rate applicable to the Bridge Loan is prime plus 6.25%. The Corporation has been subject to an additional 2% per annum interest charge since July 1, 2009 as a result of the event of default caused by its failure to repay the Senior Consolidated Debt on its maturity date.

Although not required at December 31, 2009 as a result of the maturity of the credit facility, maintaining a minimum Consolidated Leverage Ratio ("CLR") is expected to be one of the key financial ratio covenants under any extension of the revolving credit facility and is a key measure used by the Corporation in assessing the progress made to reduce its leverage. The CLR is defined in the revolving credit facility agreement as, in general terms, consolidated total debt, as defined (excluding subordinated debt including the Convertible Debentures), divided by the 12-month trailing adjusted consolidated earnings before interest, depreciation, amortization and taxes. The CLR covenant is applied monthly and at December 31, 2009, the Corporation had a CLR of approximately 2.2 to 1.0 compared to what had been a target level of 2.75 to 1.0.

As at December 31, 2009, the Corporation had unpaid fees of $1.8 million related to amendments to the Senior Consolidated Debt made in 2007 and 2008. A total of $0.3 million of debt fees were expensed as interest in the year ended December 31, 2009 (2008 - $1.5 million).

As part of the loan amendments in 2007 and 2008, the Corporation issued to its lenders 1,500,000 warrants to purchase common shares of the Corporation until June 20, 2010 at an exercise price of $1.09 per common share. None of the warrants have been exercised.

5 Convertible Debentures

In November 2007, the Corporation issued $27.9-million principal amount of unsecured convertible debentures with a maturity date of December 31, 2012. Costs related to the issuance of the debenture were $1.9 million, of which $1.7 million was deducted against the related debt and amortized. As of December 31, 2009 the costs related to the issuance of the debenture were fully amortized.

Interest due and payable on June 30, 2009 and December 31, 2009 in the aggregate amount of $2.8 million has not been paid to the debenture holders. The subordination terms of the debentures provide that the Corporation shall not pay any interest while there is an event of default under the senior credit facilities. The failure to repay the Senior Consolidated Debt on the maturity date (as described in Note 4) constitutes an event of default for this purpose. The failure of the Corporation to pay the interest constitutes an event of default under the terms of debentures and the debenture holders can accelerate the maturity date, though the remedies available to the holders are restricted by the subordination terms. The Corporation is currently working on a plan to restructure the debentures to meet the demands of the senior lenders with respect to an extension of the credit facility. There is no assurance that the debenture holders will consent to any amendment to the terms of the debentures.

The interest is payable semi-annually on each June 30 and December 31. The interest rate was initially 12%, but reduced to 10% effective December 1, 2008 as a result of the fact that the Consolidated Leverage Ratio had dropped below 5.0 to 1.0. The Consolidated Leverage Ratio is similar to the CLR for the revolving credit facilities described in Note 4, except the consolidated debt used in the numerator includes the convertible debentures. The Consolidated Leverage Ratio remained below 5.0 to 1.0 at December 31, 2009.

The debentures are convertible into common shares of the Corporation at the option of the holder at any time prior to maturity, at a conversion price equal to $1.62 per share, subject to customary anti-dilution adjustments, and conversion is subject to the terms and conditions set out in the certificates representing the debentures. At December 31, 2009, there had not been any conversions of the debentures. The Corporation may elect to

issue common shares at market trading value to satisfy the principal amount at maturity or on an acceleration of the maturity.

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

As the convertible debentures are considered a compound financial instrument, the liability and equity components are presented separately. The debentures have been accounted for using the residual method, resulting in an equity element stemming from the call option in the amount of $2.8 million, net of related issue costs of $0.2 million, being credited to shareholders' equity. The liability was valued using an estimated borrowing rate of 16%. Accretion expenses related to the liability component of $1.7 million was recorded in the year ended December 31, 2009 (2008 - $2.2million).

6 Share Capital

(a) Details of Shareholders equity (deficit)

Authorized

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

Issued	December 31, 2009	December 31, 2008
Common shares (b)	126.9	126.3
Warrants (c)	1.7	1.7
Equity element of convertible debentures (Note 5)	2.8	2.8
Contributed surplus (d)	4.5	4.1
Deficit	(141.7)	(125.2)
	(5.8)	9.7

Changes in Issued Shares	December 31, 2009		December 31, 2008	
	Shares	$	Shares	$
Opening Balance	42,442,325	126.3	42,442,325	126.3
Issuance of Shares	3,000,000	0.6	-	-
Common Shares Outstanding	45,442,325	126.9	42,442,325	126.3

Issuance of Shares

On January 23, 2009 the Corporation issued 3,000,000 common to certain directors and senior officers of the Corporation at an issue price of $0.20 per share. The offering was completed as a non-brokered private placement, whereby certain officers and directors reinvested bonus amounts paid to them by the Corporation.

(c) Warrants	December 31, 2009	December 31, 2008
Opening Balance	1.7	1.1
June 6, 2008 Renegotiation of Credit Facility (Note 4)	-	0.6
Closing Balance	1.7	1.7

(d) Contributed Surplus	December 31, 2009	December 31, 2008
Opening Balance	4.1	0.8
Share-based compensation (Note 7)	0.4	3.3
Closing Balance	4.5	4.1

(e) Per Share Amounts

The weighted average number of common shares outstanding for the year ended December 31, 2009 respectively were 45,442,325 and 45,200,567 basic and fully diluted shares (2008 was 42,442,325 fully and basic diluted respectively). All potentially dilutive instruments such as options, warrants and the convertible debentures are anti-dilutive.

7 Share-based Compensation Plan

The Corporation has a Stock Option Plan that provides incentive for directors, management and key employees that offers options to purchase shares. A total of 4,544,232 options (being 10% of all outstanding shares) are available for grants under the plan.

At December 31, 2009, a total of 3,210,550 options are outstanding and expire at various dates up to 2014, at exercise prices that range from $0.13 to $13.57 per share. These options have a term of 5 years and allow the holder to exercise their options over a three-year vesting period with 40% exercisable on the first anniversary date, 30% on the second anniversary date and 30% on the third anniversary date. The options have an average remaining contractual life of 3.82 years and 285,665 options are currently exercisable.

	Number of Shares	Weighted Average Exercise Price $/Share
Total Outstanding January 1, 2008	4,151,750	4.69
Granted	415,500	0.77
Exercised	-	-
Cancelled	(2,871,500)	4.59
Forfeited	(508,850)	3.96
Total Outstanding December 31, 2008	1,186,900	3.88
Granted	3,260,100	0.15
Exercised	-	-
Cancelled	(670,000)	1.88
Forfeited	(566,450)	2.26
Total Outstanding December 31, 2009	3,210,550	0.79

Exercise Price Range	Options Outstanding			Exercisable Options	
	Number of Options	Remaining Contractual Life (Years)	Weighted Average Exercise Price ($)	Number of Options	Weighted Average Exercise Price ($)
$0.13 to $1.99	2,927,100	4.03	0.18	34,000	1.70
$2.00 to $3.99	95,450	2.24	2.79	66,815	2.79
$4.00 to $6.99	43,500	1.94	6.19	40,350	6.23
$7.00 to $9.99	57,500	1.76	9.62	57,500	9.62
$10.00 to $13.57	87,000	0.88	10.80	87,000	10.80
Total Outstanding December 31, 2009	3,210,550	3.82	0.79	285,665	6.96

The Corporation recognized share-based compensation expense of $0.4 million for the year ended December 31, 2009 (2008 - $3.3 million) based on amortizing the expense over the vesting period using the Black-Scholes model. The options valued prior to December 31, 2007 used an average risk-free interest rate of 4.2%; average expected life of 5 years; expected volatility of 40% to September 30, 2007 and 75% thereafter and a weighted average estimate of distribution yield of nil. The 2008 options were valued using an average risk-free interest rate of 3.4%; average expected life of 5 years; expected volatility of 67.6% and an expected annual dividend yield of nil. The options in 2009 were valued with a weighted average expected volatility of 79.0%, a risk free interest rate of 1.61%, expected annual dividend yield of 0.0% and an expected life of 5 years.

8 Related Party Transactions

In the normal course of business, during the year ended December 31, 2009, the Corporation incurred general and administration expenses related to premises rent of $1.0 million (2008 - $1.0 million) and equipment and vehicle leases payments of approximately $0.3 million (2008 - $0.6 million) charged by companies controlled by the person who was the President and Chief Executive Officer of the Corporation until December 16, 2008 (the “Former CEO”) and remains the largest shareholder of the Corporation.

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

As part of the terms of the October 22, 2007 amendments to the Corporation’s credit facility, in October 2007, a corporation controlled by the Former CEO loaned the Corporation $2.0 million at a rate of 11%. This loan is subordinated to the revolving credit facility and Bridge Loan (see Note 4). Interest expense for the year ended December 31, 2009 includes $0.3 million pertaining to this loan (2008 – $0.2 million) and the interest has not been paid as a result of a subordination agreement.

A further amount of $5.0 million (2008 - $4.3 million) has been accrued for amounts that may be owing to the Former CEO, and corporations controlled by him as at December 31, 2009 on account of various transactions. The amounts are unsecured, repayable on demand (but generally subordinated to the revolving credit facility and Bridge Loan) and non-interest bearing. For the year ending, the Corporation has accrued $0.2 million as an estimate of interest at a rate of 6% per annum that may be claimed on overdue amounts. The $5.0 million also includes an amount of $1.0 million recorded during the year ended December 31, 2008 as an estimate of a liability related to the purchase of fixed assets. In total, the Corporation has accrued an amount of $0.9 million as an estimate of the potential interest liability.

The Former CEO and corporations controlled by him have demanded payment of the outstanding amounts and have initiated several lawsuits to collect approximately $6.6 million related to amounts included in the $5.0

million referred to in the preceding paragraph. The lawsuits appear to be premised on the assumption that those particular amounts are not subordinated to the revolving credit facility and bridge loan agreements with

the senior lenders and include claims for amounts that the Corporation has disputed and which have not been accrued.

Optimal Pressure Drilling Services (see Note 15) engaged the services of a director and incurred fees during the year ended December 31, 2009 of approximately $0.1 million that are recorded in Optimal Pressure Drilling Services (2008 – $0.2 million).

9 Income Taxes

(a) Income Tax Expense

The tax provision for income tax in the consolidated statement of loss and deficit varies from the amount that would be computed by applying the expected income tax rate of 29% (2008 – 30%) to the loss before taxes. The principal reasons for differences between “expected” income tax and the amount actually recorded are as follows:

	December 31, 2009	December 31, 2008
Loss from continuing operations before income taxes	(6.1)	(19.0)
Loss from discontinued operations before income taxes	(2.9)	(15.6)
	(9.0)	(34.6)
Computed income tax recovery at the statutory rate	(2.6)	(10.4)
Increase (decrease) resulting from:		
Non-deductible expenses	0.7	1.6
Non deductible losses – International tax exempt countries	0.1	2.4
Revenue based taxes in foreign jurisdictions	0.3	(0.3)
Tax rate differences	1.0	(0.1)
Unrecognized tax losses associated with Optimal	0.9	1.4
Canadian losses and temporary differences not recognized for tax purposes	7.1	10.4
Income tax expense	7.5	5.0
Represented by:		
Current income tax on continuing operations	6.7	4.7
Future income tax on continuing operations	0.5	0.6
Current Income tax on discontinued operations	0.3	(0.3)
Future income tax on discontinued operations	-	-

(b) Future Income Tax Asset

Differences between the accounting and tax basis of assets and liabilities at the tax rates expected to apply upon the reversal of the differences are shown below. At December 31, 2009 the Corporation’s future tax liability is in respect of its subsidiary operations in Papua New Guinea. The Corporation has recorded a valuation allowance against all Canadian temporary differences and tax benefits related to the sale of Optimal.

	December 31, 2009	December 31, 2008
Property and equipment and assets held for sale – Canada	13.3	15.0
Temporary differences – Papua New Guinea	(0.7)	(0.2)
Financing costs	2.1	2.9
Non-capital losses carried forward	14.7	5.9
Net capital losses carried forward	1.1	-
Future Tax valuation allowance	(31.1)	(23.8)
Other	(0.1)	-
Future tax liability	(0.7)	(0.2)

At December 31, 2009, the Canadian non-capital losses carried forward for income tax purposes was $58.6 million (2008 – $50.1 million) which expire in 2027, 2028 and 2029. Also at December 31, 2009, the Canadian net capital losses carried forward for income tax purposes was $4.6 million (2008 – nil) which can be used indefinitely but only against taxable capital gains. The Corporation has the ability to file amended tax returns to adjust certain discretionary deductions to mitigate the risk of expiring loss carry forwards.

10 Commitments and Contingencies

Accounts Receivable

The Corporation has completed a settlement of its litigation with Transeuro Energy Corp ("Transeuro"). The settlement was recorded in the fourth quarter of 2009 resulting in a $0.5 million recovery of costs written off in prior years.

The Corporation has commenced litigation against another customer with respect to collection of a receivable for services rendered outside Canada. The receivable, after a provision for possible uncollected amounts, has a carrying value of less than $0.6 million, which is the amount that is insured with the Export Development Canada. The customer has made a number of allegations and initiated a counter claim concerning performance issues and the cashing of the letter of credit of $1 million. The Corporation believes that it will ultimately realize an amount in excess of the carrying value of the receivable.

Other

A former employee of the Corporation has commenced a wrongful dismissal suit against the Corporation. The Corporation has made a provision in its financial statements for an amount that it believes is adequate to cover any exposure.

The Corporation has posted a performance bond that has been guaranteed by Export Development Canada (or "EDC") of approximately US$3.5 million, in respect of its contract in the Middle East region, and would be liable to EDC if the bond was called as a result of a default by the Corporation in the performance of its obligations under the contract. Under the terms of the contract, the Corporation could be obligated to provide up to five rigs that may not be available if requested. As at December 31, 2009, the Corporation was not providing any services under that contract, as the two rigs providing services to date have both been released from service by the customer but can be called back to service at any time during the term of the contract ending in August 2012.

Lease Obligations

The Corporation has entered into various long-term premises and equipment leases in Canada.

Future minimum lease payments as at December 31, 2009 are:

	$
To December 31, 2010	0.5
To December 31, 2011	0.4
To December 31, 2012	0.3
After 2012	0.7
	1.9

11 Capital Disclosures

The Corporation's capital structure is comprised of Shareholders' Equity, described in Note 6, Convertible Debentures, described in Note 5, plus the Revolving Credit Facility and Bridge Loan (the "Credit Facility") described in Note 4.

	December 31, 2009	December 31, 2008
Shareholders equity (deficit)	(5.8)	9.7
Convertible Debentures(1)	27.9	27.9
Credit Facility(1)	65.4	93.9
Cash and cash equivalents	(27.6)	(18.9)
Total Capitalization	59.9	112.6

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

The Corporation's goal is to have a capital structure that will provide the capital to meet the needs of its business and instil confidence with investors, creditors and capital markets. The Corporation has determined that it must reduce its debt levels and increase the shareholders' equity to reduce its leverage ratios and provide adequate financial flexibility to meet its financial obligations, both current and long term. The current debt levels are above prevailing industry standards and severely limit the financial flexibility of the Corporation.

The Corporation is seeking to extend the credit facility as its current facility matured on June 12, 2009. Sales of non-performing and underutilized assets, including a sale completed in January, 2010 have allowed the Corporation to pay down the Credit Facility. Future equity financings or the conversion of some existing debt into equity are possibilities to further reduce the risk associated with the current highly leveraged capital structure. Financing decisions for the foreseeable future will be governed largely by the requirement to reduce debt. Longer term, once the debt levels are reduced to acceptable levels, financing decisions will be based on the timing and extent of expected operating and capital cash outlays.

The Corporation monitors its debt levels and ability to service the debt using non-GAAP financial metrics with the primary one being the Consolidated Leverage Ratio or CLR. The CLR is defined in the revolving credit facility agreement as, in general terms, consolidated total debt, excluding the Convertible Debentures, as defined, divided by the 12-month trailing adjusted consolidated earnings before interest, depreciation, amortization and taxes (EBITDA). The Corporation's objective is to reduce the CLR to a level of 1.5 to 1.0, or better, compared to the December 31, 2009 level of 2.2 to 1.0.

	Twelve Months Ended December 31, 2009	**Twelve Months Ended December 31, 2008**
Consolidated Total Debt	**65.4**	**93.9**
Net loss and comprehensive loss	(16.5)	(39.6)
Add (deduct):		
Interest and financing	11.6	21.9
Income tax	7.2	5.3
Amortization	9.3	12.8
Loss (gain) on sale of property and equipment	(0.9)	2.1
Gain on sale of joint venture interest	(2.4)	-
Asset impairment	11.8	20.0
Foreign exchange (gain) loss, net	6.4	(8.1)
Stock based compensation	0.4	3.3
Write-down of long-term receivable	-	0.2
Adjustment for discontinued operations	0.1	3.6
Optimal Pressure Drilling Services	2.4	7.3
Adjusted EBITDA (Twelve Month)	**29.4**	**28.8**
Consolidated Leverage Ratio	**2.2**	**3.3**

12 Financial Instruments and Risk Management

Fair Value of Financial Assets and Liabilities

The Corporation's cash and cash equivalents are designated as held-for-trading and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as loans and receivables and recorded at amortized cost, which approximates fair value due to the short term nature of the instrument. Accounts payable and accrued liabilities, due to related party, the credit facility and Bridge Loan and convertible debentures are designated as other liabilities and are recorded at cost. The fair values of the Corporation's assets and liabilities could be lower than carrying value due to the going concern issues discussed in Note 1.

Financial Risks

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk relating to interest rates, foreign currency risk, commodity price risk, credit risk and liquidity risk.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market rates of interest, foreign currency exchange rates and commodity prices.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk as the revolving credit facility and Bridge

Loan are floating rate credit facilities and will fluctuate in response to changes in market interest rates. For the year ended December 31, 2009, an increase or decrease in interest expense for each one percent change in interest rates on revolving credit facility and Bridge Loan would have amounted to $0.8 million.

Foreign Currency Risk

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

For the year ended December 31, 2009, a 1% increase in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $0.2 million decrease in earnings as a result of changes in foreign exchange respectively.

Commodity Price Risk

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

Credit Risk

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

Customers

The Corporation's account receivables are predominantly with customers who explore for and develop petroleum reserves and are subject to normal industry credit risks. The Corporation assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding. The Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has over 400 customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation has one significant customer. In Papua New Guinea the customer represents approximately 72% of the Corporation's revenue for the year ended December 31, 2009 and 63% of its accounts receivable at that date. Management has assessed this customer as creditworthy and the Corporation has had no history of collection issues with this customer.

The aging of accounts receivables is as follows:

	December 31, 2009
0 to 30 days	11.2
31 to 60 days	2.8
61 to 90 days	0.8
Greater than 90 days	0.4
Allowances for doubtful debts	(0.7)
Total	**14.5**

The allowance for doubtful debts provision is based on an individual account by account analysis and the customer's prior credit history.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Corporation seeks to manage its financing based on the results of these processes. The budgets are updated when required as conditions change (see Note 11).

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

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts Payable	14.9	-	-	-	14.9
Current Tax Payable	0.4	-	-	-	0.4
Liabilities related to Discontinued Operations (Note 16)	0.3	-	-	-	0.3
Convertible Debentures	27.9	-	-	-	27.9
Due to Related Parties	7.0	-	-	-	7.0
Bridge Loan	20.0	-	-	-	20.0
Credit Facility	45.4	-	-	-	45.4
Total	**115.9**	**-**	**-**	**-**	**115.9**

See Note 1 for further information in relation to liquidity.

13 Segmented Information

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

Revenue	**2009**	**2008**
Canada	27.2	53.2
International		
Papua New Guinea	94.8	91.7
Other	0.6	0.1
Total International	95.4	91.8
	122.6	145.0

Property and equipment and assets held for sale from continuing operations	**2009**	**2008**
Canada	43.1	56.0
Papua New Guinea	14.1	16.1
	57.2	72.1

14 Supplementary Information

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

	2009	**2008**
Operations		
Accounts receivable	8.5	14.2
Inventory and prepaid expenses	(0.9)	0.2
Accounts payable and accrued liabilities, income taxes payable, amortization of accrued fees and prepaid mobilization revenue	(12.2)	(1.1)
	(4.6)	13.3
Investing		
Accounts payable and accrued liabilities	(0.2)	-
	(4.8)	13.3

15 Discontinued Operations

(a) Middle East Region Discontinued Operations

The activities in the Middle East region, including Tunisia and India, were identified as operations where losses and negative cash flow were leading to cash funding requirements that could not be sustained. Management determined that the situation was unlikely to improve and the decision was made during 2008 to discontinue operations in that region to the extent possible. The Corporation has divested of assets through sales and has used the proceeds on sales to reduce its debt. At December 31, 2008 the remaining assets were classified as held for sale.

The Middle East region operations are in the same general industry as the other regions of the Corporation and therefore this region was not a separate segment, as it had similar characteristics of the other geographical regions. The cash flows of this component were tracked separately by management and were managed as a separate geographical oilfield service component within the overall corporate structure. Accordingly, it has been accounted for as a discontinued operation.

Comparative figures have been adjusted to remove activities in the Middle East, Tunisia and India operations and to report those amounts as a discontinued operation. The following amounts have been included in the December 31, 2009 and December 31, 2008 Consolidated Balance Sheets.

	2009	2008
Current assets related to discontinued operations		
Accounts Receivable	0.6	5.1
Total current assets related to discontinued operations	0.6	5.1
Assets held for sale related to discontinued operations	7.0	14.6
Discontinued assets held for sale (Note 3)	7.0	14.6

	2009	2008
Current liabilities related to discontinued operations		
Accounts payable and accrued liabilities	0.3	1.5
Total current liabilities related to discontinued operations	0.3	1.5

The following amounts have been included in the results for the years ended December 31, 2009 and 2008 Consolidated Statements of Loss, Comprehensive Loss and Deficit:

	2009	2008
Revenue	1.5	14.8
Expenses		
Oilfield services	1.3	16.4
General and administration	0.9	2.8
Write-down of long term receivable	-	2.5
Amortization	-	1.0
Foreign exchange (gain) loss	0.2	(0.9)
Impairment on Assets Held for Sale	0.3	1.7
	2.7	23.5
Operating loss	(1.2)	(8.7)
Gain on sale of property, equipment and investments	(0.5)	(0.4)
Net loss before income taxes	(0.7)	(8.3)
Income taxes (recovery)	0.1	(0.3)
Discontinued Operations, net of tax	(0.8)	(8.0)

(b) Optimal Pressure Drilling Services Discontinued Operations

On December 31, 2007 the Corporation formed a joint venture ("Optimal Pressure Drilling Services") with the Schlumberger group ("Schlumberger") for the purpose of providing underbalanced drilling ("UBD") services and managed pressure drilling ("MPD") services to the worldwide upstream oil and gas industry. Optimal Pressure Drilling Services operates through separate legal entities (the "JV Entities"), including Optimal Pressure Drilling Services Inc., a Canadian corporation ("Optimal Canada") and Optimal Pressure Drilling Services, S.A. DE C.V., a Mexican corporation ("Optimal Mexico"). Optimal Pressure Drilling Services was owned 51% by the Corporation and 49% by Schlumberger through direct investments in the JV Entities.

On September 25, 2009, the Corporation completed the sale of its entire interest in Optimal Pressure Drilling Services to Schlumberger for aggregate gross proceeds of $23.5 million. The Corporation reported a gain on sale, net of taxes, of $2.4 million.

The financial results for 2009 are to the date of sale and comparative figures have been adjusted to remove activities related to Optimal Pressure Drilling Services and to report those amounts as a discontinued operation.

The Corporation invested an aggregate of US$28.4 million in the JV Entities of which an amount of US$0.8 million was paid to Optimal Canada in the form of share capital and US$27.6 million was paid to Optimal Mexico in the form of an interest bearing shareholder loan of US$20.7 million and share capital of US$6.9 million.

Optimal Pressure Drilling Services commenced operations January 1, 2008. Summarized financial information (in CDN$) for the Corporation's 51% proportionate interest in the JV Entities is as presented below. Balance Sheet amounts are shown for December 31, 2008 only due to the sale on September 25, 2009 while Income Statement information reported for the years ended December 31, 2009 and December 31, 2008 represents the Corporations 51% proportionate results to the date of sale on September 25, 2009.

Balance Sheet	**December 31, 2008**
Cash	3.3
Deposits and prepaid expenses	0.2
Accounts receivable	3.5
Total current assets	7.0
Construction in progress	4.2
Property and equipment	17.9
Total assets	29.1
Accounts payable	1.8
Interest Payable to High Arctic Energy Services	1.6
Due to High Arctic Energy Services	1.0
Notes payable to shareholders	25.3
Total liabilities	29.7
Shareholders' equity & deficit	(0.6)
Total liabilities and shareholders' equity	29.1

	2009	2008
Revenue	8.4	8.7
Expenses		
Oilfield services	7.3	9.1
General and administration	0.4	0.4
Amortization	2.8	2.4
Foreign exchange loss	-	4.1
Interest	0.1	-
	10.6	16.0
Net loss before income taxes	(2.2)	(7.3)
Income taxes	0.2	-
Net loss	(2.4)	(7.3)

As part of the consolidation process, certain intercompany balances are eliminated for consolidated financial statements reporting purposes, including the interest, notes payable and receivable balances on the High Arctic Loan. The Corporation also had deferred a gain on sale of $1.4 million on the equipment sold to the JV Entities from 2007 and is included in income on a basis consistent with the future amortization of the related assets by the JV Entities. The remaining deferred gain was recognized as a result of the sale resulting in a gain of $1.1 million for the year ending December 31, 2009 ($0.2 million - 2008).

Certain adjustments are required to be made in determining the amounts reported as discontinued operations for the purposes of reporting in the Consolidated Financial Statements of High Arctic Energy Services Inc. The following schedule provides reconciliation between the 51% proportionate results reported above for the years ended December 31, 2009 and December 31, 2008 and the loss from discontinued operations reported on the Income Statement.

	2009	2008
Net loss	(2.4)	(7.3)
Adjustments		
Foreign Exchange Adjustment on consolidation	-	(0.1)
Interest eliminated between consolidated entities	0.4	1.6
Amortization expense related to amortized gain	-	0.2
Discontinued Operations, net of tax	(2.0)	(5.6)

In addition, the following reconciliations are necessary to obtain the results that are shown on the Consolidated Balance sheet for High Arctic Energy Services:

	December 31, 2008
Cash	3.3
Deposits and prepaid expenses	0.2
Accounts receivable	3.5
Due from Optimal Pressure Drilling Services	1.0
Total current assets related to discontinued operations	8.0

	December 31, 2008
Construction in progress	4.2
Property and equipment	17.9
Unamortized gain on sale of assets to Optimal	(1.1)
Discontinued assets held for sale (Note 3)	21.0

16 Subsequent Events

On January 13, 2010 the Corporation announced the sale of three rigs for proceeds of US$ 14.0 million. The rigs were not used in the business in 2009 and were previously classified and recorded as assets held for sale (Note 3). The entire sale proceeds were applied against the Corporation's Senior Consolidated Debt.