

High Arctic Energy Services Inc.



Annual Information Form

March 30, 2010

**For the Year Ended
December 31, 2009**

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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 debt obligations (including the Corporation’s ability to obtain necessary waivers and extensions relating to the Credit Facilities);
- commodity prices and the impact that they have on industry activity;
- estimated capital expenditure programs for fiscal 2010 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;
- worldwide supply and demand for oilfield services;
- the impact of 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, its ability to:

- obtain equity and debt financing on satisfactory terms;
- market successfully to current and new customers;
- obtain equipment from suppliers;
- construct property and equipment according to anticipated schedules and budgets;
- remain competitive in all of its operations; and
- 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:

- the level of the Corporation’s indebtedness and ability to comply with its covenant terms;

- liquidity risks, which may be exacerbated if the Corporation is unable to maintain or raise financing on terms acceptable to the Corporation or at all;
- reduction in industry activity levels in Western Canada primarily due to such factors as lower natural gas prices and the ability of customers to raise capital for exploration and development;
- credit risks associated with customers in the oil and gas industry, including the inability of customers of the Corporation to pay for goods and services that have been provided;
- changes in legislation and the regulatory environment, including uncertainties with respect to royalty regimes and environmental initiatives;
- income tax matters including unanticipated tax and other expenses and liabilities of the Corporation in foreign jurisdictions;
- the worldwide demand for oilfield services in connection with the 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, Southeast Asia and elsewhere, 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 inherent in oil and gas operations, including environmental liabilities and risks;
- 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 affecting the duration of the service periods and the activities that can be completed;
- 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 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), "Oilfield Services Operating Margin", "Oilfield Services Operating Margin %", "Operating Working Capital", "Operating Working Capital Ratio", "market capitalization", "debt to capitalization ratio", "Consolidated total debt" and "CLR" are not recognized measures under GAAP. Management believes that, in addition to net earnings, EBITDA is a useful supplemental measure of the Corporation's performance prior to consideration of how operations are financed or how results are taxed. Investors are cautioned that EBITDA 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 EBITDA and other non GAAP items 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 UB Rig**” means 250K underbalanced Workover rig owned by the Corporation;

“**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 High Arctic dated March 27, 2007;

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

“**Bridge Loan**” means a bridge facility credit agreement for a \$20 million multi-draw loan facility dated July 12, 2007;

“**By-laws**” means the by-laws of High Arctic 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 Credit Facility;

“**Common Shares**” means the common shares of High Arctic;

“**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 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;

“**Credit Facility**” means a credit facility agreement, as amended, entered into by the Corporation with its senior lenders as amended and restated on June 6, 2008;

“**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;

“**Debentures**” means the unsecured convertible debentures issued by the Corporation, which mature on December 31, 2012 with a principal amount of \$27.9 million issued during November, 2008;

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

“**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.;

“**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 while performing a Workover;

“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 Limited dated October 29, 2007, governing the scope and administration of the Optimal Pressure Drilling Services;

“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;

“N₂” means nitrogen;

“Optimal Pressure Drilling Services” means the joint venture formed pursuant to the JV Agreement, operating as a separate business division under joint management of High Arctic and Schlumberger Limited;

“Plan of Arrangement” means the plan of arrangement completed on June 29, 2007 whereby the Trust, the Holding Trust, the Predecessor Company and the Corporation completed a reorganization 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;

“RAPAD™ Rig” means the 250K rack and pinion automated drilling rig formerly owned by High Arctic;

“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 the Predecessor Company to High Arctic LP, which reorganization was completed July 21, 2005, as part of the steps to complete the Initial Public Offering;

“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;

“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, without the aid of a service rig;

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

“Trust” means High Arctic Energy Services Trust;

“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;

“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 Well and for this purpose includes completion of a Well for production.

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

CORPORATE STRUCTURE

General

High Arctic is incorporated under the ABCA and commenced operations on June 29, 2007 as a consequence of the Reorganization through the Plan of Arrangement approved by the securityholders of the Trust on June 28, 2007. The Plan of Arrangement resulted in the Corporation acquiring the business of the Trust on that date.

The head office of the Corporation is at 8112 Edgar Industrial Drive, Red Deer, Alberta T4P 3R2 and the registered office of the Corporation is at Suite 1000 – 250 2nd Street S W Calgary, Alberta Canada T2P 0C1. 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 offices in Red Deer, Alberta; Grande Prairie, Alberta; Calgary, Alberta; Dubai, United Arab Emirates; Sydney, Australia and Port Moresby, Papua New Guinea.

Reorganization of High Arctic from a Trust into a Corporation

High Arctic 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 High Arctic completed the Reorganization 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. 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 High Arctic, as the new publicly traded entity, to change its name to "High Arctic Energy Services Inc."

Intercorporate Relationships

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

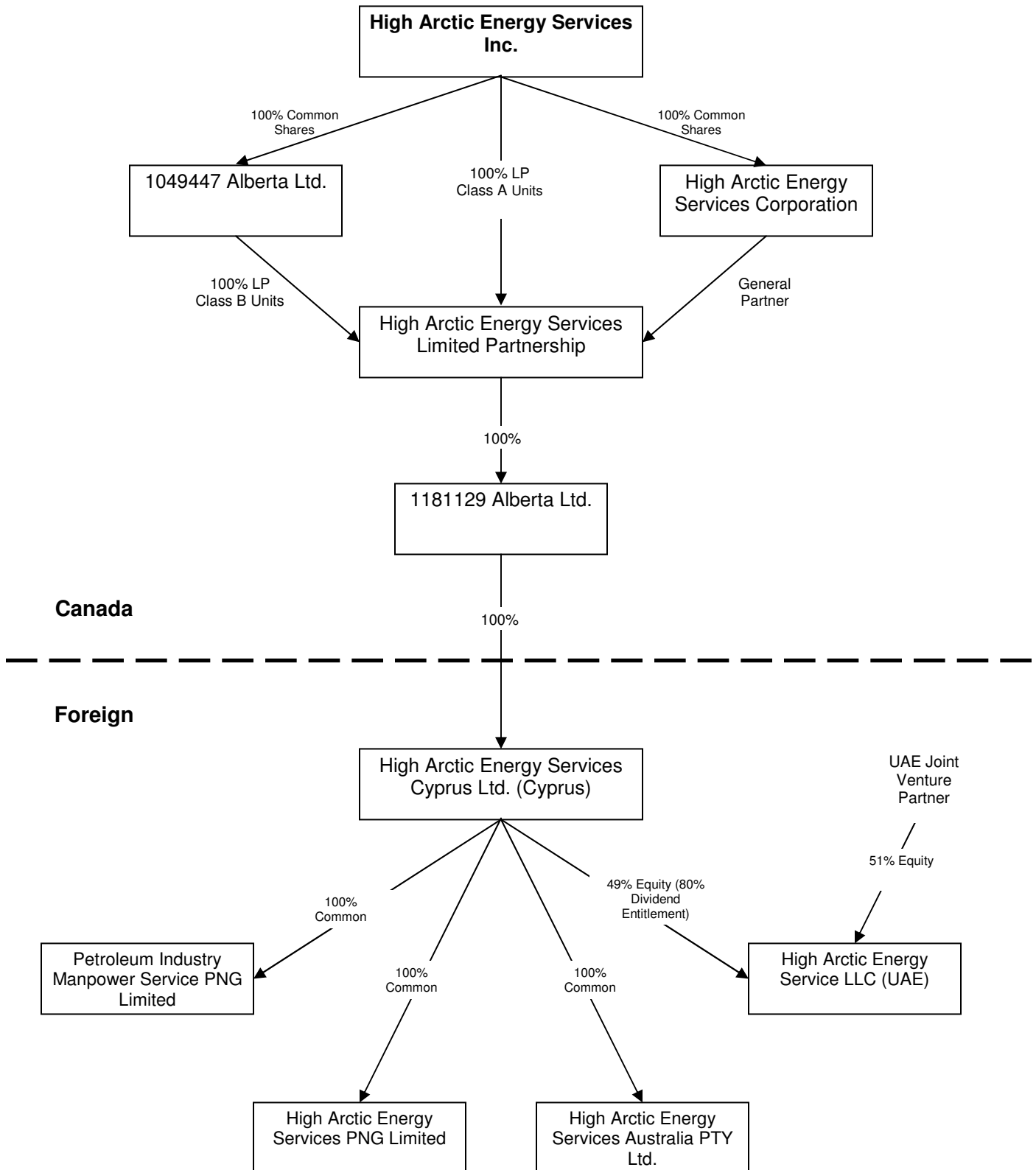
	Percentage of Voting Securities controlled (directly or indirectly) by High Arctic	Physical Location	Jurisdiction of Incorporation or Formation
1049447 Alberta Ltd.	100%	Red Deer, Alberta	Alberta
High Arctic Energy Corporation	100%	Red Deer, Alberta	Alberta
High Arctic Energy Services Limited Partnership	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 Services PNG Limited	100%	Port Moresby, Papua New Guinea	Papua New Guinea
Petroleum Industry Manpower Service PNG Limited	100%	Port Moresby, Papua New Guinea	Papua New Guinea
High Arctic Energy Services PTY Ltd	100%	Cairns, Australia	Australia
High Arctic Energy Service LLC ⁽¹⁾	49%	Dubai, United Arab Emirates	United Arab Emirates

Note:

- (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

High Arctic's principal focus is to provide contract drilling services, Snubbing services, Workover services and related oilfield services through its International and Domestic Divisions. The Corporation began as a private company in 1993 with Rig Assist units focused on Snubbing applications in Alberta. The business evolved into Stand Alone Snubbing Systems[®] units that allowed the Corporation to provide completion and Workover services on 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.

In July 2005, High Arctic completed the Reorganization into an unincorporated investment trust and made an initial public offering of Trust Units in Canada, raising gross proceeds of \$84,000,000. The Trust Units were initially listed for trading on the TSX on July 21, 2005.

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 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.

Developments of High Arctic in 2007

During 2007, the Corporation significantly expanded its international operations, commencing new projects in the Middle East region, Tunisia, India and, most significantly, in Papua New Guinea. The Corporation also entered into the JV Agreement forming the Optimal Pressure Drilling Services joint venture to provide UBD and MPD services. Optimal Pressure Drilling Services 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 18 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 this rig, designated as Rig 101, the rig began drilling in October 2007. During 2007, the Corporation provided project management services related to the construction of a second heli-portable drilling rig, 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, 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 daily rental basis and drilling support personnel on a daily rental 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. The Corporation deployed two HWR units in Kuwait. As at December 31, 2009, no operations were active in Kuwait as the rigs had been called down by the customer in 2008.

In June 2007, a drilling rig 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 the first well under that contract was spudded in February 2008 on

completion of the mobilization to the operating area. That contract was completed in January 2009 and the rig was demobilized to North America where it was subsequently sold.

On March 28, 2007, an amount of \$13.6 million was raised through the issue of Trust Units and a further \$28.4 million was raised on April 13, 2008 through the issue of Trust Units.

On July 12, 2007, the Corporation entered into the Bridge Loan and drew down \$20 million. The Corporation also increased its Credit Facilities to \$106.4 million as at December 31, 2007.

During November 2007, the Corporation closed a private placement for \$27.9 million of 12%, unsecured convertible Debentures due December 31, 2012. Effective December 1, 2008, the interest rate of such Debentures decreased to 10%.

The cash amounts raised from these financings were used to fund the growing international business, the purchase of further equipment, to fund operating losses related to the write-off of a significant receivable and to invest in the Optimal Pressure Drilling Services.

Developments of High Arctic in 2008

In 2008, High Arctic continued the rapid growth of its business in Papua New Guinea. In March 2008, the Corporation mobilized the Cadomin, a hydraulic Workover rig, to Papua New Guinea to perform HWR services under a one year contract with two further one year extension options. The Cadomin began working on its first well in June 2008. The Corporation was awarded a contract for Rig 104, which is a state-of-the-art heli-portable drilling rig similar to Rig 103, which mobilized to Papua New Guinea in the fourth quarter of 2008 and began drilling in December 2008. The contract term was for a two year period beginning at the completion of mobilization. Rig 104 replaced Rig 101, which completed its contract in September 2008 and High Arctic's personnel from Rig 101 were transferred to Rig 104.

In early 2008, the Corporation formed a restructuring committee with the primary mandate of working with the Corporation's lenders and taking the necessary actions to put the Corporation back on a sound financial footing. The Committee was initially composed of Michael Binnion, Chairman of the Board; Jed Wood, then the President and Chief Executive Officer; and Dennis Sykora, Executive Vice President and General Counsel. Mr. Wood has since been replaced as a member of the restructuring committee by Chris Warren, a director of the Corporation. The Corporation embarked on a strategy to reduce debt through the sale of excess and underutilized assets. The restructuring committee, along with senior management, also decided that areas with operating losses would also have to be significantly downsized or discontinued.

During 2008, two drilling rigs and other assets were sold for proceeds in excess of \$29 million that were applied towards the principal debt outstanding under the Credit Facilities. In total, the Corporation paid \$31.5 million towards the debt in 2008, bringing the principal down from \$126.4 million as at December 31, 2007 to \$93.9 million as at December 31, 2008.

The Corporation signed a number of loan agreement amendments with its lenders throughout the first half of 2008. These amendments were mainly to extend the term of the Credit Facility and Bridge Loan and to cure certain defaults. On June 6, 2008 the Corporation signed an amended and restated agreement with its lenders which, among other matters, extended the revolving term under the Credit Facility and the maturity date of the Bridge Loan until March 31, 2009. In addition, the Corporation committed to raise \$50 million through the sale of equipment to apply against the Credit Facilities. The equipment sales were to be completed at defined intervals so that 25% was to be completed by July 31, 2008, 50% was to be completed by September 30, 2008 and 75% was to be completed by November 30, 2008. The Corporation met the July 31, 2008 and the September 30, 2008 targets, but did not meet the November 30, 2008 nor the January 31, 2009 targets and had to receive further amendments and waivers under the Credit Facility.

During 2008, the Corporation significantly scaled down its international operations, primarily in the Middle East region, Tunisia and India. As at December 31, 2008, substantially all of its activities were being carried on in Canada, Papua New Guinea and in Optimal Pressure Drilling Services.

Developments of High Arctic in 2009

In March, 2009, High Arctic began implementation of a cost reduction program, as activity levels in the Canadian oilfield experienced a sharp reduction in the first quarter of 2009, driven by the decreased commodity prices, particularly for natural gas. High Arctic took proactive steps to deal with the situation by reducing costs and staffing levels. The Corporation also relocated its main operating facility in Red Deer, Alberta during November 2009. The relocation provides the benefit of reduced lease and facility operating costs. Capital spending in continuing operations for 2009 was also reduced from \$8.0 million in 2008 to \$3.6 million in 2009 which was primarily on maintenance capital projects.

In April, 2009, the Corporation announced that it has signed a non-binding expression of interest to sell its 51% interest in Optimal Pressure Drilling Services. The sale was concluded in September, 2009 with the entire net proceeds of \$23.5 million being applied against the Corporation's Credit Facilities. Altogether, the Corporation reduced its senior debt by \$28.5 million to \$65.4 million during 2009.

On June 12, 2009, the Credit Facilities matured and High Arctic has been in default under the Credit Facility and Bridge Loan since that time. As a result of that default, High Arctic was prohibited from paying interest on the Debentures and the holders are now in a position to accelerate payment.

The Corporation's operating activities in the Middle East region have been virtually discontinued. The Corporation will continue to maintain an office in Dubai until such time as all business activities are concluded.

Subsequent to the year ended, December 31, 2009, the Corporation sold its last remaining RAPAD™ Rig, a Hydraulic Workover Rig and a heli-portable drilling rig for proceeds of \$14.8 million. The rigs were not used in the business in 2009 and were part of the assets being actively marketed for sale. The entire sale proceeds were applied against the Corporation's Credit Facilities. The outstanding balance on the Credit Facilities following the pay down was approximately \$50.6 million. That sale was an important milestone for High Arctic as it has now successfully completed the sale of substantially all of those assets identified in 2008 as being surplus to the ongoing core business activities.

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 Dubai, United Arab Emirates; Sydney, Australia and Port Moresby, Papua New Guinea.

High Arctic is an oilfield services contractor company currently operating primarily in Western Canada and Papua New Guinea.

The Corporation has two operating divisions, the International Division and the Domestic Division offering contract drilling and Workover services, Snubbing services and the supply of Cryogenic Liquid Nitrogen Pumping Services. Discontinued Operations refers to Optimal Pressure Drilling Services, which was sold in 2009, and to the Middle East region, including Tunisia and India, where the operations were discontinued during 2008 and is recorded as a Discontinued Operation for financial reporting purposes.

The services are generally conducted under a day-work contract under which the Corporation charges a fixed 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 limit its exposure to 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 or even part of a day 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 three years. Often the contracts have extension periods beyond the primary term, as well as price adjustment clauses.

The Corporation's largest contract drilling operation is in Papua New Guinea where it operates two heli-portable drilling rigs and one Hydraulic Workover Rig. The Corporation's activity in Papua New Guinea accounted for 72% of the Corporation's revenue for 2009. Services in Papua New Guinea are provided under longer term contracts rather than the well to well contracts common in Canada. Our customer in Papua New Guinea owns three rigs (Rigs 101, 103 and 104) that are leased to High Arctic under an operating lease agreement. In Papua New Guinea, High Arctic owns a hydraulic Workover rig (Rig 102) and other drilling support equipment. Rig 102 began working in Papua New Guinea in June 2008. It was operating until the end of the second quarter of 2009. From July 2009 through to the end of December 2009, Rig 102 was stacked and under a reduced daily rate. Rig 103 commenced drilling its first well in December 2007 under a three year contract that expires on December 31, 2010. Rig 103 was stacked in July 2009 and was under a much reduced daily rate through December 31, 2009. Rig 104 commenced operations on its first well in December 2008. Rig 104 remained drilling throughout 2009.

Main Product / Service Lines

Drilling and Workover Rigs

The Corporation operates speciality drilling rigs and Hydraulic Workover Rigs to drill, complete and Workover Wells. The Corporation's largest contract drilling operation is in Papua New Guinea where it operates two heli-portable drilling rigs and one Hydraulic Workover Rig.

Snubbing

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.

Snubbing services are generally provided on a daily rental basis under short term well-to well-contracts using the Stand Alone units, the larger Foothills Standalone units and Rig Assist units.

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.

Operating Divisions

The Corporation has two operating divisions, the International Division and the Domestic Division. Discontinued Operations refers to Optimal Pressure Drilling Services, which was sold in 2009, and to the Middle East region, including Tunisia and India, where the operations were discontinued during 2008 and is reported as a Discontinued Operation for financial reporting purposes.

Consolidated revenue for the two operating divisions and the Discontinued Operations for the years ended December 31, 2009, 2008 and 2007 are as follows:

	Year ended 31 December 2009		Year ended 31 December 2008		Year ended 31 December 2007	
	Revenue in \$millions	% of Total Revenue	Revenue in \$millions	% of Total Revenue	Revenue in \$millions	% of Total Revenue
International Division	\$95.4	72.0%	\$91.8	54.5%	\$36.2	27.8%
Domestic Division	\$27.2	20.5%	\$53.2	31.6%	\$64.6	49.7%
Discontinued Operations ⁽¹⁾	\$9.9	7.5%	\$23.5	13.9%	\$29.3	22.5%
Total	\$132.5	100%	\$168.5	100%	\$130.1	100%

Notes:

- (1) Discontinued Operations refers to Optimal Pressure Drilling Services which was sold in 2009 and the Middle East, Tunisia and India regions where the operations were discontinued during 2008 and is reported as a Discontinued Operation for financial reporting purposes. The amounts would otherwise have been included under the International Division.

International Division

Within the International Division, the Corporation has the following product lines:

Primary Services

Hydraulic Workover Rig
Heli-portable Drilling Rigs

Secondary Services

Drilling Support Equipment Rentals

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

Snubbing Units
Stand Alone Snubbing Systems®
Foothills Stand Alone Snubbing Systems
Rig Assist Snubbing Units
250K Underbalanced Workover Rigs
Cryogenic Liquid Nitrogen Pumping Services

Secondary Services

Specialized Tool Rentals

Description of Equipment and Services

The following chart sets forth a list of High Arctic's major equipment as at December 31, 2009.

<u>Type of Equipment</u>	<u>Units Currently Owned</u>	<u>Domestic</u>	<u>International</u>
Rig Assist Snubbing Unit	6	6	-
Stand Alone Snubbing System®	10	10	-
Foothills Stand Alone Snubbing System	5	5	-
250K UB Rig	3	3	-
Cryogenic Liquid Nitrogen Pumper	10	10	-
Cryogenic Liquid Nitrogen Bulker	5	5	-
Hydraulic Workover Rig ⁽¹⁾	2	1	1
RAPAD™ Rig ⁽²⁾	1	-	1

Notes:

(1) The Hydraulic Workover Rig noted under the Domestic column was sold in January, 2010.

(2) The RAPAD™ Rig was sold in January, 2010

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. 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 six Rig Assist Snubbing Units, all of which are in located Canada and generally work on short-term well-by-well daily rate contracts.

Stand Alone Snubbing Systems®

The Stand Alone Snubbing System® was designed and developed by High Arctic 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. High Arctic 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 minimize 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 daily rate contracts.

Foothills Stand Alone Snubbing Systems

In 2005, High Arctic 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, blow out prevention 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, all located in Canada. Generally, the units work on short-term well-by-well daily rate contracts.

250K UB Rig

The 250K UB Rig is the third generation to the Stand Alone Snubbing System® technology. The 250K UB Rig is 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 wellbores to a depth of 3,500 metres (11,483 feet) depending on the size of tubulars or drill pipe being run. The 250K UB Rig is a mobile, land-based rig designed to operate more efficiently than a Hydraulic Workover Rig.

The 250K UB Rig design incorporates a specialized "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 large Stand-alone 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 120K 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 Corporation owns three 250K UB Rigs. These rigs had less than 18% utilization in January, 2009 as compared to 94% utilization in January, 2008. The decline in activity is the result of increasing competition from substitute technologies and new competitors entering the marketplace. Management made the decision during the first quarter of 2009 to not actively market these units on a well to well basis until market conditions improve. The three 250K UB hydraulic Workover units remain inactive.

Cryogenic Liquid Nitrogen Pumpers and Cryogenic Liquid Nitrogen Bulklers

High Arctic's high pressure Cryogenic Liquid Nitrogen Pumpers are used in applications such as coil tubing clean out, purging pipelines, pressure testing vessels, and in the completion of oil and gas Wells. Nitrogen is an inert gas that is non-corrosive and non-explosive and is used in place of air whenever a risk hazard assessment dictates. Nitrogen is commonly used in the oil and gas industry including in applications supporting underbalanced operations. Nitrogen can be added to acid blends to provide additional energy to assist in the clean up of unwanted materials and sediments in order to enhance well flow rates. Nitrogen is also added to water and hydrocarbons when fracturing Wells to assist formations in clean up with low bottom hole pressures. Nitrogen is particularly useful for what it does not do when used in Underbalanced Drilling, as it does not react negatively with most materials, making it a safe way to complete the job. Nitrogen is often pumped into the wellbore related to the underbalanced work to safely improve the recovery of introduced or produced fluids, while reducing the potential for damaging the formation.

The Cryogenic Liquid Nitrogen Bulker is a trailer mounted storage tank that is used for transporting liquid nitrogen to the well sites for use in nitrogen pumping operations. The units include a pump and all necessary manifold piping and valves required to transfer the nitrogen to a pumping unit. The tractor towing unit has a hydraulic system used to power the transfer pump.

The Corporation currently owns ten Cryogenic Liquid Nitrogen Pumpers and five Cryogenic Liquid Nitrogen Bulklers, all operating in Canada under short term renewable daily 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.

Heli-Portable Drilling Rigs

The Corporation operates two heli-portable drilling rigs in Papua New Guinea under drilling services contracts. The rigs are leased by the Corporation from its customer 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 daily rental basis and drilling support personnel on a daily rental rate basis, all under a drilling support contract with a term tied to the term of the drilling services contracts.

Market Information - International Market

Papua New Guinea (“PNG”)

There are significant oil and natural gas reserves in PNG and the country hopes to become a significant energy exporter. A major step towards this goal has been the announcement that a US\$15.0 million liquefied natural gas (LNG) project completed both its financing and offtake agreements in the first quarter of 2010. The project will supply four major Asian LNG consumers through long term offtake agreements. The offshore Papua New Guinea project will provide both liquefaction and storage facilities with a capacity of 6.6 million tonnes per annum (mtpa). The LNG project should lead to increased oilfield activity within PNG.

High Arctic had one customer in Papua New Guinea during 2009 and High Arctic is currently the largest drilling contractor in Papua New Guinea. The success and activity of High Arctic is dependent on the exploration and development plans of that customer, who also is the owner of two drilling rigs operated by High Arctic. That customer is the largest operator in PNG, and PNG is the core part of the customer's business activities. The Corporation operates the two newest rigs currently in the country. Other operators have expressed interest in using one of the rigs so other opportunities may be available in 2010. Management believes that PNG offers opportunities for growth.

Market Information – Domestic Market

High Arctic's domestic business depends on the overall drilling and well completion activity in the industry and therefore on the level of spending by oil and gas companies. The Canadian oilfield services sector is cyclical and is significantly affected by the activity levels of exploration and production companies. High Arctic's Canadian business is primarily dependent on natural gas well drilling and completions. On a yearly average basis, prices for oil and natural gas have been lower in 2009 compared to 2008. Oil prices continued to strengthened in the fourth quarter of 2009 and have continued the positive trend in 2010. The trend in natural gas pricing has been less favourable, with both the average natural gas price in 2009 and the December 31, 2009 year end price being about 50% lower than the 2008 prices. While some moderate improvements in natural gas prices occurred in the early part of 2010, any increase may be seasonal related and concern remains about the near term outlook for natural gas prices. The weak natural gas prices will continue to have a negative impact on drilling activity in Western Canada.

The CAODC reported 9,351 wells were completed in Canada during 2009; a decrease of 55% from the 20,729 wells completed in the same period in 2008. Gas well completions during 2009 totalled 5,082, which was a decrease of 7,279 (59%) gas wells as compared to the same period in 2008. For the year ended December 31, 2009, High Arctic's Canadian revenue decreased by 49% as compared to the year ended December 31, 2008. The drop in revenue is in line with the 55% drop in well completions during 2009.

Competitors

The Corporation's competitors 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 equipment, its high level of experience with underbalanced drilling services, its ISO certified processes and its experienced personnel and management.

The Corporation's competitors for any international work vary by region but include large drilling contractors such as Nabors Drilling, Weatherford, Parker Drilling and Great Wall Drilling, and service companies such as Halliburton, Weatherford, International Snubbing Services, Hydraulic Well Control and CUDD Energy Services. High Arctic, as a comparatively small competitor, relies on niche markets.

The Canadian domestic market is a highly competitive, mature market with a range of competitors to each of the Corporation's product lines. Management believes that the Corporation stands out from its competitors in a number of ways: its newer, more advanced fleet of equipment, its industry-recognized training and its leadership in Snubbing.

Customers

The Corporation's accounts receivable 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. That 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. As at December 31, 2009 the Corporation's outstanding receivable balance with this one customer had \$0.3 million greater than 90 days. Management has assessed this customer as creditworthy and the Corporation has had no history of collection issues with this customer. See "*Risk Factors – Service Agreements and Contracts*".

Changes to Contracts

High Arctic's principal contracts in Papua New Guinea related to Rigs 103 and 104 have primary terms that end in December, 2010. The contracts give the customer the option at its discretion to extend beyond the primary term. The Corporation expects to commence contract extension negotiations during the summer of 2010. While High Arctic is optimistic, it is too early to predict if it will be successful in extending the contracts or the terms that will apply to any extension. As noted above, the contracts with that particular customer in Papua New Guinea represented 72% of the Corporation's revenue in 2009.

Employees

As at December 31, 2009, High Arctic had the following approximate number of employees and contractors in its operating divisions:

Operating Division	Number of Employee and Contractors
International	251
Domestic (including Corporate administration)	151
Total	402

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

Default under Credit Facilities

The Credit Facilities matured on June 12, 2009 such that all amounts owing under the Credit Facility, Bridge Loan and the Debentures will become due and payable immediately if demanded by the creditors. In such event, pursuant to security granted pursuant to the 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 details of the Credit Facility including waivers and extensions thereto are described in the December 31, 2009 financial statements of the Corporation.

Liquidity and Financing Risks

The Corporation's debt levels are currently above industry standards .The Corporation must reduce its debt leverage and maintain sufficient liquidity for its operating needs.

The revolving term of the Credit Facility and the Bridge Loan both matured on June 12, 2009. The Corporation has been working with its lenders to secure the necessary amendments to the Credit Facility and Bridge Loan; however there is no guarantee that the Corporation will be able to secure the necessary amendments or additional financing on terms attractive to the Corporation, or at all.

Where existing debt is converted into Common Shares or additional financing is raised by the issuance of Common Shares or securities convertible into Common Shares, control of the Corporation may change and shareholders may suffer dilution to their investment.

Industry conditions, especially in Canada, are expected to remain weak well into 2010, which creates a significant risk of negative operating cash flows.

Corporation's Indebtedness

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. High Arctic generally grants unsecured credit to its customers; however, it evaluates all new customers as appropriate and analyzes and reviews the financial health of its current customers on an ongoing basis.

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. The Corporation's ability to provide reliable and quality services is dependent on its ability to hire and retain a dedicated and quality pool of employees. The Corporation strives to retain employees by providing a safe working environment, competitive wages and benefits, and an atmosphere in which all employees are treated equally regarding opportunities for advancement. 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

In 2007, the Government of Alberta announced changes to the Alberta royalty regime, including changing the royalty structure for natural gas and conventional oil by adjusting sliding rate formulas that are price and volume sensitive. In late 2008, early 2009 and in March, 2010, relief from this royalty regime was announced in the form of additional transitional provisions, royalty credits, royalty rate incentives and royalty rate reductions. The Corporation is not a royalty payor, and therefore is not directly affected by these proposed changes. However, as a service provider, the Corporation is affected by oil and gas companies' responses to the regime and any proposed changes. Oil and gas companies have and will continue to assess the impact of the current royalty regime along with the recently announced relief measures on their operations and future activities. Both the short-term and long-term implications of these announcements for the Corporation are difficult to determine.

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.

Interest Rate Risk

The Corporation is exposed to interest rate risk on its Credit Facility and Bridge Loan and does not currently hold any financial instruments that mitigate this risk. The Corporation's Credit Facility and Bridge Loan are linked to the prime rate. A 1% increase or decrease in the prime rate for the year would have resulted in \$0.7 million change in interest expense based on the outstanding balances as at December 31, 2009.

Income Tax Risk

The Corporation has risks for income tax matters, including the unanticipated tax and other expenses and liabilities of the Corporation due to changes in income tax laws. The Corporation must file tax returns in the foreign jurisdictions in which it operates. The tax laws and the prevailing assessment practices are subject to interpretation and the foreign authorities may disagree with the filing positions adopted by the Corporation.

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.

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

At December 31, 2008, the Corporation identified that improvements in fixed asset processes and tax management were needed. The Corporation was able to improve the fixed asset processes by clearly defining fixed asset accounting procedures and processes and through closer monitoring of capital assets and capital asset expenditures. Tax management was improved through the use of external tax specialists and improvements in tax compliance monitoring and reporting.

External consultants and senior management personnel conducted reviews, designed and developed processes to ensure that controls were designed appropriately. In the fourth quarter of 2009, the Corporation with the assistance of external consultants performed subsequent testing to ensure that processes and controls were operating effectively. Based upon their evaluation of the internal controls, the CEO and CFO have satisfied themselves that the internal controls are effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Corporation has implemented many improvements 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.

Environmental Liability

The Corporation is subject to the operating risks inherent in the industry, including environmental damage. The Corporation has established programs to address compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that the Corporation's procedures will prevent environmental damage occurring from spills of materials handled by the Corporation or that such damage has not already occurred. On occasion, substantial liabilities to third parties may be incurred. The Corporation may have the benefit of insurance maintained by it or the customer; however, the Corporation may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

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.

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 and internationally. Failure of suppliers to deliver supplies and materials in a timely and efficient manner would be detrimental to the Corporation's ability to maintain levels of service to its

customers. The Corporation is also 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. High Arctic attempts to mitigate this risk by maintaining good relations with key suppliers. However, if the current suppliers are unable to provide the supplies and materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to our clients could have a material adverse effect on our results of operations and our financial condition.

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 there under to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". On April 26, 2007, the Government of Canada released its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "Action Plan") which includes the regulatory framework for air emissions. This Action Plan covers not only large industry, but regulates the fuel efficiency of vehicles and the strengthening of energy standards for a number of energy using products. 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 or other federal or provincial regulations related to greenhouse emissions and climate change and it is possible that it will adversely affect the Corporation's business, financial condition and results of operations.

Lower Industry Activities

The level of activity in the oil and gas exploration and production industry is volatile and a significant decline was experienced in 2009 as compared to earlier years. The 2010 activity levels are projected to be similar to those experienced in 2009. The Corporation's activity in Canada is driven largely by the number of wells completed. The Canadian Association of Drilling Contractors ("CAODC") has forecast that the number of wells to be completed in Western Canada during 2010 will be 8,523 as compared to the 9,351 wells completed in 2009. In 2008 20,729 well completions were reported by the CAODC. The lower level of activity in Western Canada is driven in large part by the fact that natural gas prices and to a lesser degree the oil prices are currently at lower levels than in recent years. This has resulted in oil and gas companies reducing their capital expenditure programs for drilling which have a negative impact on the Corporation's Domestic activity levels.

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; 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.

Majority Shareholder

The Corporation has specific risks that result from its unique situation. The former Chief Executive Officer of the Corporation directly or indirectly has the ability to control the votes to approximately 38% of the issued and outstanding Common Shares and, as such, is in a position to significantly influence the outcome of actions requiring shareholder approval.

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.

DIVIDENDS

The Corporation did not pay any dividends on the Common Shares during 2008 or 2009. During 2007, the Trust made distributions to the Trust Unitholders of \$2.1 million in respect of January 2007.

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.

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 March 30, 2010 there were 45,442,325 issued and outstanding Common Shares. A total of 4,544,232 stock options (being 10% of all outstanding shares) are available for grant under the Stock Option Plan. As at March 30, 2010, a total of 3,013,690 share options were outstanding and expire at various dates up to 2014, at exercise prices ranging from \$0.15 to \$13.57 per share.

There were 1,500,000 warrants outstanding as at March 30, 2010, with each warrant giving the holder the right to purchase one common share of the Corporation at a price of \$1.09 per share until June 20, 2010.

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.

Preferred Shares

The Preferred Shares may be issued from time to time in one or more series, each consisting of such number of Preferred Shares as determined by the board of directors of the Corporation, who also may fix the designations, rights, privileges, restrictions and conditions attaching to the shares of each series of Preferred Shares. The preferred shares of each series shall, with respect to payment of dividends and distribution of assets in the event of voluntary or involuntary liquidation, dissolution or winding-up of the Corporation or any other distribution of the assets of the Corporation among its Shareholders for the purpose of winding-up its affairs, rank on a parity with the preferred shares of every other series and shall be entitled to preference over the Common Shares and the shares of any other class ranking junior to the Preferred Shares.

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 recognize 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, comprised of 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 price range and trading volume of the Common Shares as reported by the TSX for the periods indicated during 2009:

MONTH - 2009	HIGH	LOW	VOLUME
JANUARY	\$ 0.150	\$ 0.140	402,200
FEBRUARY	\$ 0.145	\$ 0.120	65,400
MARCH	\$ 0.150	\$ 0.090	178,000
APRIL	\$ 0.150	\$ 0.080	198,100
MAY	\$ 0.150	\$ 0.110	706,200
JUNE	\$ 0.120	\$ 0.080	351,100
JULY	\$ 0.100	\$ 0.080	99,500
AUGUST	\$ 0.090	\$ 0.075	223,700
SEPTEMBER	\$ 0.090	\$ 0.060	1,718,700
OCTOBER	\$ 0.100	\$ 0.065	387,700
NOVEMBER	\$ 0.095	\$ 0.060	1,028,200
DECEMBER	\$ 0.110	\$ 0.080	394,200

PRIOR SALES

During the 12 months prior to March 30, 2010, no securities of the Corporation have been issued.

DIRECTORS AND OFFICERS

The following table sets forth the names and municipalities of residence of those individuals who are directors and officers 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
Michael Rupert Binnion ^(1,2,4,6,8,9) <i>Calgary, Alberta</i>	Director and Chairman of the Board	2005	President and Chief Executive Officer of Questerre Energy Corporation since November 2000.
Christopher Randall Warren Q.C. ^(2,4,5,8,9) <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.
Simon Batcup ^(2,4,6,7) <i>Calgary, Alberta</i>	Director	2007	Mr. Batcup is a business consultant, focusing in IT and oilfield services. He was the Managing Director of Optimal Pressure Drilling Services from 2007 until High Arctic sold its interest in September of 2009. Prior to that he 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.
Steven R. Vasey ^(2,3,6,7,8) <i>Calgary, Alberta</i>	Director	2009	Mr. Vasey currently operates in the Integrated Seismic Solutions group of Ion Geophysical. He has been actively involved in the executive management of public seismic service companies in North America and Europe throughout his career.
Bruce Allen Thiessen <i>Red Deer, Alberta</i>	Chief Executive Officer and Vice President, Marketing	2000	Chief Executive Officer since February, 2010, Interim Chief Executive Officer since December 2008. Vice President, Marketing since 2000. Has led the High Arctic marketing department since 1993. Previously, he was Marketing Manager at Terroco Oilfield Services.
Dennis Frank Sykora ⁽⁹⁾ <i>Calgary, Alberta</i>	Chief Restructuring Officer, 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.

Name and Municipality of Residence	Position	Director / Officer Since	Principal Occupation During the Preceding five years
Morley William Myden <i>Calgary, Alberta</i>	Chief Financial Officer	2007	Joined the Corporation in November 2007 and Chief Financial Officer since March 2008. Prior to that, President of a private company. Prior to that, 22 years in successive senior management positions with Halliburton Canada Inc., including, Controller and Director of Shared Services.
Kevin Doran <i>Cairns, Australia</i>	Regional Manager, Australia / Asia Pacific	2008	Joined the Corporation in August 2006. Prior to that, 26 years with KCA Deutag Drilling in various position of increasing seniority.
Christopher James Anderson Red Deer, Alberta	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.

Notes:

- (1) Chairman of the Audit Committee
- (2) Member of the Audit Committee
- (3) Chairman of the Governance and Nominating Committee
- (4) Member of the Governance and Nominating Committee
- (5) Chairman of the Remuneration Committee
- (6) Member of the Remuneration Committee
- (7) Chairman of the Environment, Health and Safety Committee
- (8) Member of the Environment, Health and Safety Committee
- (9) Member of the Restructuring 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 30, 2010, the directors and executive officers of the Corporation, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 3,471,885 Common Shares of the Corporation, or approximately 7.6% of the issued and outstanding Common Shares of the Corporation, based on 45,442,435 issued and 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 ABCA, 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.

Cease Trade Orders

None of the above directors, as at the date of this Annual Information Form, or within 10 years before the date of this Annual Information Form, has been, a director, chief executive officer or chief financial officer of any company, that:

- (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- (b) was subject to a cease trader order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer cease to be a director, chief executive officer of chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Bankruptcies

Except as noted below, no director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, is:

- (a) as at the date of this Annual Information Form, or has been within the 10 years before the date of this Annual Information Form, a director or executive officer of any company that, while that person was acting that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has within the 10 years before the date of the Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

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 Binnion, a director of the Corporation, has been President and Chief Executive Officer of Questerre Energy Corporation since November 2000.

Penalties and Sanctions

No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to materially affect the control of the Corporation, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

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 4 members: Michael Binnion, Simon Batcup, Christopher Warren and Steven Vasey. Mr. Binnion, Mr. Warren and Mr. Vasey have no direct or indirect material relationship with the Corporation. Until September, 2009, Mr. Batcup was the Managing Director of Optimal Pressure Drilling Services in which the Corporation had a 51% interest. The Audit Committee members are all 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 former Managing Director of the Optimal Pressure Drilling Services 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 former position with Optimal Pressure Drilling Services. The Corporation does not have plans to replace Mr. Batcup on the Audit Committee given it no longer has a connection to Optimal Pressure Drilling Services.

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 a public member of the Council of Association of Science and Engineering Technology Professionals of Alberta; honorary board member of the Red Deer Regional Health Foundation; 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 is a business consultant, focusing in IT and oilfield services. He acted as the Managing Director of the Optimal Pressure Drilling Services Joint Venture from December, 2007 until September, 2009. 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.

Steven R. Vasey

Mr. Vasey joined the Board in May of 2009. Mr. Vasey has been actively involved in the executive management of public seismic service companies in North America and Europe throughout his career. Mr. Vasey was the founder VGS Seismic; a Calgary based seismic data ownership company. He was President and Chief Executive Officer of VGS Seismic from 2005 to 2008. Prior to that Mr Vasey was the Vice President of Operations for Western Geophysical and Petroleum Geoservices. Mr. Vasey currently operates in the Integrated Seismic Services group of Ion Geophysical in Calgary, Alberta. Mr. Vasey holds a Bachelor's degree in Geophysics from the University of Missouri – Rolla.

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 2009 and 2008, dividing the services into the categories of work performed:

Type of Work	2009 Fees	2008 Fees
Audit Fees	\$311,908	\$369,640
Audit Related Fees Quarterly review	\$102,416	\$159,190
Tax planning and compliance	\$53,630	\$91,724
Other (reviews and discussions on accounting matters)	\$2,833	\$43,000

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 of the Corporation. 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, 2009 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 2009 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.

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 of \$5 million 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.

The former CEO and corporations controlled by him have demanded payment and have initiated several lawsuits to collect approximately \$6.6 million on account of loans made by the CEO, amounts related to

unpaid rents and expense reimbursements and for other amounts alleged to be owing by the Corporation. The lawsuits include claims for amounts that the Corporation has disputed and which have not been accrued. In addition, the Corporation has made certain counterclaims for amounts that it claims are owed to it. The Corporation has accrued an amount of \$5.0 million in respect of the claims for the \$6.6 million.

Two former employees of the Corporation have each commenced unrelated wrongful dismissal suits 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 ("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.

Regulatory Actions

During the year ended December 31, 2009, 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 related party transactions, as set out in the consolidated audited financial statements for the year-ended December 31, 2009, 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 Common 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 Credit Facility and Bridge Loan

The Corporation has a 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 in the Financial Statements*). 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 Credit 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 the Bridge Loan with one of the lenders dated July 12, 2007 for a \$20-million bridge loan facility. The obligations under the 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 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 the prime rate 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 Credit Facility and is a key measure used by the Corporation in assessing the progress made to reduce its leverage. 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.

2. Convertible Debentures

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 issue 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 initial placement of the Debenture, resulting in the additional issuance of an aggregate of \$4.9 million of Debentures. The total gross proceeds of the Debenture placement, including the exercise of the over-allotment option, were \$27.9 million.

The primary terms of the Debentures are as follows:

- (a) the Debentures are due December 31, 2012;
- (b) the Debentures bore interest at the rate of 12.0 percent per annum, and reduced to 10% effective December 1, 2008 as a result of the CLR being equal to or less than 5.0;
- (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 due and payable on June 30, 2009 and December 31, 2009 in the amount of \$2.8 million has not been paid to the debenture holders. The subordination terms of the convertible debentures provide that the Corporation shall not pay any interest while there is an event of default under the Credit Facilities. The failure to repay the Senior Consolidated Debt on the maturity date (*as described in Note 4 in the Financial Statements*) 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 the convertible 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 convertible 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 convertible 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 Shareholders 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, 2009.

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.