High Arctic Energy Services Inc.
Management Discussion and Analysis
For the Three and Six Months Ended June 30, 2012 and 2011

The following Management Discussion and Analysis ("MD&A") of High Arctic Energy Services Inc. (the "Company" or "High Arctic") should be read in conjunction with (i) the consolidated financial statements of High Arctic, and the notes thereto and MD&A, for the year ended December 31, 2011 (the "Financial Statements"), (ii) the Annual information Form of High Arctic for the year ended December 31, 2011 and (iii) the unaudited consolidated interim financial statements of High Arctic and the notes thereto and MD&A for the quarter ending March 31, 2012 and June 30, 2012. This information is available at SEDAR (www.sedar.com).

Forward-Looking Statements

This MD&A 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 are intended to identify forward-looking statements. Such statements reflect the Company's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to vary from those described in this MD&A. 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 MD&A as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this MD&A include, among others, statements pertaining to the following: general economic and business conditions which will, among other things impact demand for and market prices for the Company's services; expectations regarding the Company's ability to raise capital and manage its debt obligations; commodity prices and the impact that they have on industry activity; estimated capital expenditure programs for fiscal 2012 and subsequent periods; projections of market prices and costs; factors upon which the Company will decide whether or not to undertake a specific course of operational action or expansion; treatment under governmental regulatory regimes and political uncertainty and civil unrest. With respect to forward-looking statements contained in this MD&A, the Company 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 Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and elsewhere in this MD&A, along with the risk factors set out in the Annual Information Form for the year ended December 31, 2011, filed on SEDAR at www.sedar.com.

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

This MD&A is dated August 13, 2012.

Corporate Profile

High Arctic is a publicly traded company listed on the Toronto Stock Exchange under the symbol "HWO". The Company's principal focus is to provide contract drilling and specialized well completion services, equipment rentals and other services to the oil and gas industry in Canada and Papua New Guinea ("PNG").

The Canadian operation is focused on the provision of snubbing services and the supply of nitrogen to a large number of oil and natural gas exploration and production companies operating in Western Canada. The Company's fleet of equipment in Canada at June 30, 2012 included 21 snubbing units, 10 nitrogen pumpers, 5 nitrogen transports and 3 rack and pinion underbalanced work-over units ("250K UB units"), all of which operate primarily in the spot market on a well by well basis. High Arctic has a substantial operation in Papua New Guinea where it provides contract drilling, specialized well completion services and supplies rig matting, camps and drilling support equipment on a rental basis. The Company owns and operates the only heli-portable hydraulic workover rig in PNG and is contracted to operate up to three heli-portable drilling rigs owned by a large oil and gas company. Services in PNG are generally provided under term contracts ranging from 6 months to 3 years.

Selected Comparative Financial Information

The following is a summary of selected financial information of the Company. All figures are presented in accordance with the International Financial Reporting Standards ("IFRS"):

	Three Months Ended June 30				Six Months Ended June 30			
$ millions (except per share amounts)	2012	2011	Change	%	2012	2011	Change	%
Revenue	**29.6**	**24.9**	**4.7**	**18.9**	**71.8**	**60.8**	**11.0**	**18.1**
EBITDA[1]	**4.6**	**3.4**	**1.2**	**35.3**	**18.6**	**14.4**	**4.2**	**29.2**
Adjusted EBITDA[1]	**5.2**	**3.9**	**1.3**	**33.3**	**19.5**	**14.4**	**5.1**	**35.4**
Operating earnings	**2.3**	**1.2**	**1.1**	**91.7**	**14.0**	**10.4**	**3.6**	**34.6**
Net earnings	**5.7**	**(0.1)**	**5.8**	**_**	**16.4**	**7.2**	**11.7**	**128**
per share (basic)[2]	0.12	0.00	0.12	--	0.36	0.16	0.20	
per share (diluted)[2]	0.12	0.00	0.12	--	0.35	0.15	0.20	
Cash Flows provided by operations[1]	**3.4**	**2.7**	**0.7**	**25.9**	**16.8**	**13.1**	**3.7**	**28.2**
Dividends paid	**0.5**	**-**	**0.5**	**-**	**0.5**	**-**	**0.5**	**-**
Capital expenditures	**5.3**	**5.8**	**(0.5)**	**(8.6)**	**6.9**	**7.5**	**(0.6)**	**(8.0)**
Net cash (net debt) end of period [1]	**12.8**	**(4.2)**	**17.0**					
Shares outstanding - end of period[2]	**49.8**	**49.6**	**0.2**					

(1) Readers are cautioned that EBITDA, Adjusted EBITDA, Cash Flows provided by operations, net debt and net cash do not have standardized meanings prescribed by IFRS – see "Financial Measures".

(2) The restricted shares held by a trustee under the Executive and Director Incentive Share Plan are included in the shares outstanding. The number of shares used in calculating the per share net earning amounts are determined differently as explained in the interim financial statements. On June 15, 2011, the Company completed a consolidation of its common shares on the basis of one (1) new post consolidation common share for every five (5) pre-consolidated common shares. For comparative purposes, all per share and share outstanding information presented in the table above reflect the share consolidation as if it had occurred prior to all periods presented above.

Overview

High Arctic continued its strong year over year growth in revenue, EBITDA and net earnings in the second quarter of 2012. Adjusted EBITDA increased 33.3% to $5.2 million in the quarter and by 35.4% to $19.5 million for the six months to June 30 as compared to the same periods of last year. Papua New Guinea generated higher revenue and contributed to the strong improvements in profitability in the quarter as the Company continued to benefit from the capital additions made during 2011.

Net earnings for the quarter and six months improved to $5.7 million and $16.4 million, respectively, compared to earnings (loss) of $(0.1) million and $7.2 million in the same periods for 2011. The 2012 net earnings include the benefit of a $5.0 million tax adjustment booked in the second quarter.

Consolidated revenue for the second quarter increased 18.9% to $29.6 million compared to $24.9 million for the quarter last year. Year to date revenues of $71.8 million are up 18.1% compared to 2011. Consolidated operating margins have also been strong improving to 25% for the quarter from 23.7% in 2011 and to 33.3% for 2012 year to date compared to 30.3% last year. This result is indicative of the better day rates in Canada and the strong returns generated in 2012 on capital invested in new rental equipment during 2011. The margins for the second quarter in both years are lower than the year to date due to the much lower Canadian activity attributable to normal spring break up.

The growth in revenue for the quarter was driven by activity in PNG where the second quarter revenue was $25.1 million compared to $20.5 million in 2011, primarily from the benefit of Rig 102 operating throughout the quarter and growth in the matting and equipment rental business. Year to date revenues in PNG of $48.6 million are up 19.1%.

Revenue for Canada was relatively flat improving slightly to $4.5 million for the quarter compared to $4.4 million in 2011. The quarter saw some reduction in activity levels in the core snubbing business due largely to weather conditions, but benefited from the start up during June of a 250K UB unit that generated $0.5 million of revenue during the quarter. Year to date, Canadian revenue was $23.2 million in 2012 compared to $20.0 million driven by strong activity levels during the first quarter in the liquids rich natural gas plays in Alberta and British Columbia.

High Arctic is in a very strong financial position. At June 30, 2012, the Company had $27.6 million of cash on hand, well in excess of the total debt of $14.8 million. The Company continues to generate strong cash flows from its operations. For the second quarter, High Arctic generated $3.4 million (2011- $2.7million) of cash flows provided by operations and $16.8 million ((2011 - $13.1 million) year to date. The 12 months trailing Adjusted EBITDA was $38.4 million at June 30, 2012 compared to $31.9 million for the 12 months ended June 30, 2011.

As a result of its strong financial position, High Arctic instituted a monthly dividend with the first monthly dividend of $0.01 per share paid on June 14, 2012. At that monthly rate, the annual dividend would total $6.0 million, which should leave the Company with most of its current operating cash flow available for investment in its business.

High Arctic, with its strong cash position and available debt facilities is well positioned to take advantage of strategic growth and acquisition opportunities to enhance shareholder value. The Company announced on June 26, 2012 that it had contracted to supply a new camp at a cost of $4.6 million. Since then another $1.7 million has been committed for new mats, bringing to $11.3 million its 2012 growth capital commitments for Papua New Guinea. That matches the total budgeted amount for 2012 resulting in the board of directors approving a further $6.0 million for the 2012 PNG capital budget to take advantage of the strong demand for our services in the country. The benefits from these investments will start to accrue in the fourth quarter of 2012 as the new equipment is put into service.

Operating Results for the Three and Six months ended June 30, 2012 and 2011

	Three Months Ended June 30				Six Months Ended June 30			
$ millions	2012	2011	Change	%	2012	2011	Change	%
Revenue								
Canada	4.5	4.4	0.1	2.3	23.2	20.0	3.2	16.0
Papua New Guinea	25.1	20.5	4.6	22.4	48.6	40.8	7.8	19.1
Total Revenue	**29.6**	**24.9**	**4.7**	**18.9**	**71.8**	**60.8**	**11.0**	**18.1**
Oilfield services expense	**22.2**	**19.0**	**3.2**	**16.8**	**47.9**	**42.4**	**5.5**	**13.0**
% of Revenue	75.0%	76.3%			66.7%	69.7%		
Oilfield services operating margin	**7.4**	**5.9**	**1.5**	**25.4**	**23.9**	**18.4**	**5.5**	**29.9**
% of Revenue	25.0%	23.7%			33.3%	30.3%		
Equipment utilization in Canada	15%	16%	(1.0)		44%	46%	(2.0)	

Operations in Canada

Revenue for the Canadian operations in the second quarter of 2012 of $4.5 million was level with the second quarter of 2011. The second quarter is traditionally the slowest quarter of the year due to spring break up and often wet field conditions. The small increase in Canadian revenue was attributable to the deployment of one 250K UB unit in June generating revenue of $0.5 million offset by lower revenues in the core snubbing business during the month of June primarily attributable to wet weather conditions. Despite historically low natural gas prices, the 16% increase in year to date Canadian revenues demonstrates High Arctic's leadership position in high pressure and unconventional service well completions and continued demand for its services in the most active regions where operators are drilling long reach horizontal wells targeting liquids rich gas reservoirs.

Total equipment utilization for the second quarter of 2012 was 15% compared to 16% for the second quarter of 2011 while the utilization for the year to date was also slightly down. The higher revenues can be attributed to the better day rates and product mix more than offsetting the decreased utilization.

Equipment utilization is determined by dividing the number of twelve hour days a unit operates by the total number of days in the relevant period. The Company's largest business line in Canada is Stand Alone snubbing services which accounted for revenue of $2.9 million in the quarter ($3.4 million in Q2 of 2011). Utilization rates for the Stand Alone snubbing units for the quarter ended June 30, 2012 was 14% as compared to the 21% in 2011. Nitrogen equipment utilization was 17% in the second quarter of 2012 compared to 16% utilization in the second quarter of 2011.

The Company has seen an easing in the shortage of experienced field personnel since the first quarter. The Company successfully introduced retention incentives to help retain crews through the slower spring and early summer period and hopes to see the benefit when activity picks up in the fall. In addition to our ongoing training programs, we have implemented an advanced training program to run throughout 2012 as part of our effort to expand our available personnel.

The Company has three 250K UB units that have seen limited activity during the past few years. In the second quarter, one of the units was refurbished and commenced work as part of a plan to demonstrate their ability to multi-stage complete the longer horizontal wells that can extend beyond 6000 meters. The unit is expected to be active through much of the third quarter with activity beyond that time dependent on the results and availability of work on the longer wells. The Company is also examining

the market for the 250K UB units for other specialized applications such as SAGD wells and possible applications in the oil shale plays in the United States.

International Operations

Revenue for the PNG operations in the second quarter of 2012 was $25.1 million or 22.4% higher compared to the second quarter of 2011. The increase in revenue for the quarter was primarily related to Rig 102 operating the full quarter in 2012 compared to a partial month in 2011, resulting in additional revenue of $1.5 million, revenue of $2.5 attributable to new matting and equipment rentals acquired during 2011 and pricing increases that were implemented at the start of 2012. These increases were partially offset by lower revenue on both Rigs 103 and 104 operations as only one of those rigs was active at any one time during 2012 while both were active for most of the first half of 2011.

Revenue year to date for the PNG operations is up 19.1% to $48.6 million. The increase is attributable to the same factors as led to the increase in the second quarter, namely Rig 102 operating throughout 2012 compared to a partial month in 2011, the addition of new rental equipment and rate increases partially offset by two drilling rigs actively drilling through most of the first half in 2011 compared to only one rig in 2012.

Our main customer in PNG owns two heli-portable rigs (Rigs 103 and 104) that are currently managed and operated by High Arctic under operating leases. PNG's revenue includes amounts related to the recovery of lease related costs. An equivalent lease cost is included under oilfield services expense. High Arctic also owns a hydraulic workover rig (Rig 102) and drilling support equipment. Both Rig 103 and Rig 104 and the related drilling support services are contracted until December 2013. The term for High Arctic's Rig 102 runs until May 2014.

Our main customer's drilling program throughout the first six months of 2012 was equivalent to a one drilling rig program. Rigs 103 and 104 each drilled well locations with the drilling crews always working on the rig actively drilling while a much smaller crew moved the non-active rig to the next well site. The non-active rig earns a much lower day rate that reflects the limited crews. Comparatively, in the first six months of 2011 until late June 2011, a two rig drilling operation was in effect with Rig 104 operating for our primary customer and Rig 103 active shared with two different operators. Our main customer currently has plans to operate a two rig drilling program starting early in the fourth quarter of 2012 so High Arctic will add a drilling crew.

High Arctic's workover Rig 102 was active throughout the first half of 2012, while in the same period of 2011 it earned only mobilization revenue with minimal profit margin as it was being remobilized in June 2011 following a significant upgrade. Indications from our customer are that Rig 102 will continue its workover operation throughout the remainder of 2012.

Revenue from PNG's matting and equipment rental business increased significantly in the first and second quarter of 2012 compared to those periods in 2011. Of High Arctic's $13.3 million in capital expenditures in 2011, approximately $10.0 million was invested in the expansion of the equipment rental business and those new expenditures generated revenue of $2.5 million for the second quarter and $4.5 million year to date. As at the end of the second quarter of 2012, substantially all of these equipment additions were on contract and generating revenue. A significant portion of PNG's rental fleet consists of Dura-Base® mats, of which High Arctic now has approximately 5,900 mats earning revenue in country and a further 1,500 on order for delivery in the fourth quarter.

Oilfield Services Expenses and Oilfield Services Operating Margins

Oilfield services expense includes both fixed and variable costs that, in total, do not increase or decrease by the same proportion as changes in revenue and activity levels. The Company maintains a scalable cost infrastructure wherever possible which adjusts to changing activity and provides substantial operating leverage when activity increases.

Oilfield services expense as a percentage of revenue, on a consolidated basis, was 75.0% for the second quarter of 2012 compared to 76.3% for the same period in 2011. Wage pressures were experienced in both Canada and Papua New Guinea due to a continued undersupply of skilled oilfield labour. High Arctic instituted wage increases and employee retention programs which resulted in higher personnel costs in the second quarter of 2012 compared to 2011. However, revenue rates have increased to offset these cost pressures and oilfield services operating margins improved as a percentage of revenue. The increase in the margin percentage is attributable to a greater share of revenue being earned from rental equipment with higher operating margins. As a result of the higher revenue and better margin percentage, the operating margin of $7.4 million for the second quarter was a 25.4% increase from the same period in 2011.

On a year to date basis, the oilfield service operating margin also improved to $23.9 million, or 33.3% of revenue, compared to $18.4 million (30.3% of revenue) for the same period in 2011. The improvement in the margin percentage was driven by a number of factors. The rate increases in Canada for snubbing and nitrogen services combined with cost control measures were important factors. In PNG, Rig 102 has higher margins than Rig 103 or 104 as the Company does not incur lease charges on Rig 102. Therefore, the margins improved due to the Rig 102 and a one drilling rig operation in 2012 compared to the two drilling rig and less than one month Rig 102 operation in 2011. In addition, the expansion of the higher margin matting and equipment rental business improved the overall margin percentage for 2012.

The lower operating margin as a percentage of revenue in the second quarter of 25% compared to 33.3% year to date in 2012 is attributable to the slowdown in Canadian activity associated with normal spring breakup. Because the fixed costs do not drop with the drop in activity, the margins in second quarter drop disproportionately.

In light of continuing weakness in natural gas and the possibility of further producer capital expenditure cutbacks in Canada, management will continue to monitor oilfield service expenses and respond accordingly if activity drops.

Selected Expense Information

General and Administrative

	Three Months Ended June 30			Six Months Ended June 30		
$ millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
General and administrative	**2.2**	**2.0**	**0.2**	**4.4**	**4.0**	**0.4**
% of Revenue	**7.4%**	**8.0%**		**6.1%**	**6.6%**	

General and administrative expenses (G&A) for the second quarter of 2012 were up slightly with the modest increase due primarily to increased personnel costs and professional fees and some additional costs to support the higher revenues. Total G&A, as a percentage of revenue, decreased in 2012 compared to 2011 as a result of increasing revenue without proportionately increasing the G&A support.

Share-based Compensation

	Three Months Ended June 30			Six Months Ended June 30		
$ millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Share-based compensation	**0.4**	**0.4**	**0.0**	**0.8**	**1.9**	**(1.1)**
% of Revenue	**1.4%**	**1.6%**		**1.1%**	**3.1%**	

Share-based compensation expense of $0.4 million for the quarter is the result of a $0.2 million expense related to the executive and director share incentive plan and $0.2 million of share-based compensation expense for the stock option plan, both substantially similar to the second quarter of 2011. The higher six month amount reported for 2011 was attributable to the formula used to amortize the calculated benefit amount over the vesting period.

Amortization

	Three Months Ended June 30			Six Months Ended June 30		
$ millions	2012	2011	Change	2012	2011	Change
Amortization	**2.3**	**2.2**	**0.1**	**4.6**	**4.0**	**0.6**
% of Revenue	**7.8%**	**8.8%**		**6.4%**	**6.6%**	

Amortization increased due to capital investments by High Arctic during 2011 that were put into service late in 2011 and early 2012.

Foreign Exchange Loss

	Three Months Ended June 30			Six Months Ended June 30		
$ millions	2012	2011	Change	2012	2011	Change
Foreign exchange loss	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**	**0.0**
% of Revenue	**0.7%**	**0.4%**		**0.1%**	**0.2%**	

The Company has exposure to U.S. dollar revenues and expenses, primarily through its international operations, and to local currencies including the Kina in PNG and to the current assets (cash and cash equivalents) and current liabilities denominated in U.S. dollars held in Canada. The translation of foreign operations with a functional currency different from that of the Company, being primarily the U.S. dollar based operations in PNG, is translated into Canadian dollars and resulting changes are recognized in other comprehensive income as cumulative translation adjustments. However, gains and losses recorded by the Canadian parent on its U.S. dollar cash accounts and on any U.S. dollar denominated intercompany balances must be recognized in the statement of operations while the offsetting amount on the intercompany balances recorded for the foreign subsidiary is recorded as a cumulative translation adjustment. Such gains and losses are non-cash items as they are purely intercompany offsetting amounts. For the reported periods, the U.S. dollar was fairly stable relative to the Canadian dollar resulting in very small losses attributable to a net intercompany liability.

Interest and Finance Expenses

	Three Months Ended June 30			Six Months Ended June 30		
$ millions	2012	2011	Change	2012	2011	Change
Interest and finance expenses	**0.4**	**0.3**	**0.1**	**0.6**	**1.2**	**(0.6)**
% of Revenue	**1.4%**	**1.2%**		**0.8%**	**2.0%**	

The principal amount of the senior debt was $15.0 million at June 30, 2012 (prior to netting of unamortized origination costs of $0.2 million), compared to $20.0 million at June 30, 2011. The interest rate applicable to the senior debt is based on the prime rate plus a spread. The higher interest expense reported for the six months ended June 30, 2011 reflects the higher outstanding principal amount prior to entering the current credit facility in May, 2011 (see "Liquidity and Capital Resources - *Credit Facility*" below).

Income Taxes

	Three Months Ended June 30			Six Months Ended June 30		
$ millions	2012	2011	Change	2012	2011	Change
Income taxes - Current	**1.2**	**1.0**	**0.2**	**2.0**	**2.0**	**0.0**
Income taxes – Deferred (recovery)	**(5.0)**	**-**	**(5.0)**	**(5.0)**	**-**	**(5.0)**

The current income tax expense primarily relates to current taxes payable in PNG. The Company is not currently taxable in Canada as a result of available tax pools. The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the income tax consequences attributable to the difference between amounts recorded in the financial statements and their respective tax bases, using a substantially enacted tax rate. The effect of any change in income tax rates on future tax assets and liabilities is recognized in earnings in the period that the change occurs. As at December 31, 2011, the Company had tax pools in Canada of approximately $116 million for which it had not recognized any future net benefit due to the uncertainty of the Company's ability to use those tax pools. During the second quarter of 2012, the Company booked a tax benefit of $5.0 million as a result of determining that sufficient certainty exists to support recognizing $20 million of the tax pools. The Company does not expect to be taxable in Canada for the foreseeable future as a result of its available tax pools.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares.

As at June 30, 2012, there were 49,777,966 issued and outstanding common shares. That number includes 3,540,000 shares held in the Share Incentive Plan (*see Note 8 of the Interim Financial Statements*) that have not yet vested and which may be cancelled under certain circumstances related to a three year vesting period. As of the date hereof, there were 49,817,966 issued and outstanding common shares including 3,580,000 shares held in the Share Incentive Plan.

The Company's common shares trade on the Toronto Stock Exchange under the symbol HWO. The closing price of the shares on August 10, 2012 was $1.62 per share. Based upon the issued common shares on that date of 49,817,966, the Company has an approximate market capitalization of $80.7 million.

Liquidity and Capital Resources

Selected Capitalization Data:

$ millions except financial ratios	June 30, 2012	December 31, 2011	Change
Current assets[1]	50.4	40.8	9.6
Current liabilities[2]	13.9	11.6	2.3
Operating working capital[3]	36.5	29.2	7.3
Operating working capital ratio[4]	3.6	3.5	0.1
Total debt (including current portion)	14.8	17.2	(2.4)
Total debt-to-capitalization ratio[5]	0.15	0.21	(0.6)
Cash and cash equivalents	27.6	16.5	11.1
Net debt (net cash)[6]	(12.8)	0.7	13.5

Notes:

(1) Calculated as all current assets.
(2) Calculated as current liabilities excluding the current portion of long-term debt.
(3) Calculated as current assets (as defined above) less current liabilities (as defined above).
(4) Calculated as current assets (as defined above) divided by current liabilities (as defined above).
(5) Calculated as total debt divided by the sum of total debt and shareholders' equity.
(6) Net debt (net cash) is calculated as the amount which total debt exceeds (is exceeded by) cash and cash equivalents.

The Company manages its capital structure so as to provide the capital to meet the requirements of its business and instill confidence in investors, creditors and the capital markets. The debt leverage is an important metric used by management to assess the capital structure. Management believes that the total debt-to-capitalization ratio and the debt to adjusted EBITDA ratio are well within reasonable and prudent levels. Total debt to 12-month trailing EBITDA was 0.39 at June 30, 2012 suggesting a capacity for further borrowing to provide the flexibility for growth in the business. The Company has a credit facility (see "Credit Facility" below) out of which up to $10.0 million is available to be drawn on a revolving basis.

The Company generated net cash from operating activities before working capital adjustments of $3.4 million and $16.8 million for the three and six months ended June 30, 2012, respectively, compared to $2.7 million and $13.1 million for the three and six months ended June 30, 2011. The cash balance and available undrawn credit facilities provide adequate liquidity to meet the Company's expected operating needs. The Company had a cash balance of $27.6 million as at June 30, 2012 and believes it has sufficient cash to meet its cash needs for the foreseeable future.

Credit Facility

The main components of the Company's credit facility are a committed capital loan with a four year amortization, a $5.0 million committed revolving evergreen loan and a $5.0 million demand revolving operating loan. The credit facilities are secured by all the assets of the Canadian parent and by guarantees of its foreign subsidiaries.

The capital loan is subject to interest at prime rate plus 1.75% and has a maturity date of August 31, 2013. The prime rate was 3.0% as at June 30, 2012, and has not changed since then, meaning the interest rate on the capital loan is currently running at an equivalent annual rate of 4.75%. The Company is required to make quarterly principal payments on the term loan of $1.25 million at the end of each quarter.

The $5.0 million revolving evergreen loan can be used for the acquisition of equipment to be purchased and held in Canada. The evergreen loan requires monthly principal payments equal to 1/48th of each advance drawn on the facility commencing in the month following the month the advance is drawn. The maturity date is August 31, 2013. The interest rate for this facility is the bank's prime interest rate plus 1.25%. As at June 30, 2012, the Company has not drawn against the evergreen loan.

The $5.0 million demand revolving operating loan facility may be drawn to a maximum of 75% of the eligible Canadian accounts receivable, less certain priority claims, and 90% of the eligible foreign accounts receivable insured by a lender approved insurer. The annual interest rate for this facility is the bank's prime interest rate plus 1.25%. As at June 30, 2012, the Company has not drawn against the revolving operating loan.

As at June 30, 2012, $15.0 million (prior to the netting of debt transaction costs) of the capital loan was outstanding and $10.0 million of revolving capacity is available for future operations and growth. The cash and cash equivalents at June 30, 2012 exceeded total debt by $12.8 million.

The credit facility is subject to the following financial covenants calculated at the end of each fiscal quarter:

Ratio	Threshold	Ratio June 30, 2012
Funded Debt to EBITDA[(1)]	2.00:1 Maximum	0.39:1
Debt to Tangible Net Worth[(2)]	2.50:1 Maximum	0.38:1
Current Ratio[(3)]	1.50:1 Minimum	3.63:1
Fixed Charge Coverage Ratio[(4)]	1.25:1 Minimum	5.63:1

(1) Funded Debt to EBITDA means the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing 4 quarters. Funded Debt is defined generally as indebtedness and liabilities which constitute debt in accordance with IFRS but excluding accounts payable, other short-term non-interest bearing liabilities and future income taxes. EBITDA is defined generally as net Income plus interest expense, cash taxes payable, depreciation, amortization, future income taxes, stock based compensation and deducting gains from the sale of assets, all calculated on a consolidated basis.
(2) Debt to Tangible Net Worth means the ratio of total liabilities less postponed loans and subordinated debt and future income tax liabilities to shareholders' equity less intangible assets, deferred charges and shareholder advances
(3) Current Ratio means, the ratio of consolidated current assets to consolidated net current liabilities (excluding the current portion of long term debt and other debt, if any).
(4) Fixed Charge Coverage Ratio is defined as EBITDA less cash taxes, dividends and unfunded capital expenditures divided by the total of principal payments on long term debt and capital leases plus interest, all calculated on a consolidated basis for the trailing 4 quarters. Most of the capital expenditures for 2011 and for the six months ended June 30, 2012 are considered as funded under the terms of the loan agreement.

Cash Flow

Cash – Operating Activities

Cash flow provided by operations in the three and six months ended June 30, 2012 was $3.4 million and $16.8 million, respectively, compared to $2.7 million and $13.1 million for the three and six months ended June 30, 2011. After working capital adjustments, net cash generated from operating activities during the second quarter was $11.5 million compared to $7.0 million in the second quarter of 2011 and $20.6 million and $17.0 million for the six month periods ending June 30, 2012 and 2011, respectively. The most significant balance impacting the change in working capital was accounts receivable. The Company's accounts receivable balance at June 30, 2012 was $16.1 million ($0.9 million over 90 days) compared to $26.2 million ($0.6 million over 90 days) at March 31, 2012. The decrease of $10.1 million in accounts receivable during the second quarter related to the seasonal drop in Canadian activity from the busy first quarter to the cyclical low point at June 30. The overall drop in accounts receivable of $3.1 million during the first half of 2012 relates to a reduction in the Canadian receivables of $8.6 million from a comparatively high December 31 balance offset by a growth in the Papua New Guinea receivables attributable to its growing business and invoicing and collection delays associated with a new customer. The risks associated with the Company's accounts receivable are viewed as normal for the industry and management assesses the creditworthiness of its customers on an ongoing basis.

Investing Activities

For the three and six months ended June 30, 2012, capital expenditures were $5.3 million and $6.9 million, respectively, compared to capital expenditures of $5.8 million and $7.5 million for the three and six months ended June 30, 2011. Most of the capital expenditures in the second quarter were directed at upgrades for the Canadian nitrogen and Stand-Alone fleet and for continued expansion of PNG's rental fleet.

Financing Activities

The Company made a scheduled $1.25 million principal repayment during the second quarter of 2012. In addition, it paid a dividend of $0.5 million, received proceeds of $0.2 million on the exercise of employee stock options, received $0.2 million on the repayment of executive loans and expended $0.1 million on the purchase of shares for cancelation under its normal course issuer bid.

Quarterly Financial Review

Selected Quarterly Consolidated Financial Information (Three Months Ended)

The following is a summary of selected financial information of the Company for the last eight completed quarters.

$ million except per share amounts	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010
Revenue	**29.6**	**42.2**	**37.1**	**29.3**	**24.9**	**35.9**	**33.3**	**29.0**
Adjusted EBITDA	5.2	14.3	11.2	7.8	3.9	10.5	9.5	8.0
Net earnings (loss) – before discontinued operations	5.7	10.7	7.8	3.0	(0.1)	7.3	5.3	2.9
per share (basic)	$0.12	$0.23	$0.17	$0.07	$(0.00)	$0.17	$0.12	$0.07
per share (diluted)	$0.12	$0.22	$0.16	$0.06	$(0.00)	$0.15	$0.12	$0.07
Net earnings (loss) – discontinued operations	-	-	-	-	-	-	(0.6)	(0.2)
per share (basic)	-	-	-	-	-	-	$(0.01)	$(0.01)
per share (diluted)	-	-	-	-	-	-	$(0.01)	$(0.01)
Net earnings (loss)	5.7	10.7	7.8	3.0	(0.1)	7.3	4.7	2.7
per share (basic)	$0.12	$0.23	$0.17	$0.07	$(0.00)	$0.17	$0.11	$0.06
per share (diluted)	$0.12	$0.22	$0.16	$0.06	$(0.00)	$0.15	$0.11	$0.06

In Canada, frozen ground during the winter months tends to provide an optimal environment for drilling activities and consequently, the first quarter is typically the strongest for Canada. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. Road bans, which are generally imposed in the spring, restrict the transportation of heavy equipment onto customer locations which reduces demand for services in the Canadian operation and, therefore, the second quarter is generally the weakest quarter of the year for Canada.

Industry Indicators and Market Trends

The following table provides quarterly information for the last eight quarters to assist with the understanding of the oilfield services industry and the effect that commodity prices have on industry activity levels. In addition, the Company's international financial results are impacted by fluctuations in the U.S. dollar to Canadian dollar exchange rate.

	2012		2011				2010	
Average for the period	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Oil and natural gas prices								
West Texas Intermediate *(US $ /bbl)*	$93	$103	$94	$90	$102	$94	$85	$76
Brent Crude (*US $/bbl)*	$109	$119	$109	$112	$117	$105	$87	$76
AECO *(C$ /Mcf)*	$1.83	$2.52	$3.47	$3.72	$3.74	$3.77	$3.58	$3.72
Other industry indicators								
Well completions in Western Canada(1)	2,107	3,121	4,621	3,861	3,323	4,276	5,352	2,767
Gas well completions in Western Canada(1)	346	632	1,009	803	980	1,660	2,132	1,124
Active drilling rigs in Western Canada(1)	178	540	489	454	190	534	399	323
Average drilling rig utilization rates(1)	22%	68%	61%	57%	24%	68%	50%	41%
US$ per Canadian$ exchange rate	0.990	0.999	0.978	1.020	1.033	1.015	0.987	0.962

(1) Source: Canadian Association of Oilwell Drilling Contractors (CAODC)

Increases or decreases in the price of oil and natural gas can materially impact spending on drilling and well completion activities. High Arctic's business activity 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.

Oil prices decreased during the second quarter of 2012 by about 9% and have decreased further since that time. However, the trend to more of the field activity being directed at oil projects should continue. Natural gas prices have continued to remain very weak and are not expected to materially improve in the near term due to high storage level and available supply. The AECO reference natural gas price averaged only $1.83 per Mcf in the second quarter of 2012. High Arctic's Canadian activity levels are tied more closely to gas drilling activity and the associated well completions. The weakness in natural gas prices has led to Canadian producers focusing on liquids rich natural gas developments as the associated liquids or condensates, such as ethane, butane and propane, typically attract prices tied to oil prices making them attractive at current oil prices. This trend to target the liquids rich areas is expected to continue as long as oil prices remain at or near their current levels. In addition, Asian energy companies are increasingly investing in Canada, providing needed capital, long term outlooks and encouraging expansion into Asian markets.

Throughout the first half of 2012, the industry experienced monthly year over year drops in the number of well completions with the trend most visible in gas wells. The number of gas well completions dropped 63% in the first half. The effect has been muted by the increase in the complexity and depth of the wells that is leading to more time being spent on each well. Most forecasts are predicting the softer commodity prices and overall economic outlook will lead to reduced industry activity in the second half of 2012 compared to 2011, with the degree of reduction still very much unknown. For July, the active rig count averaged 307 compared to 367 in 2011, marking the fifth straight month that the active rig count has been lower year over year.

Despite the drop in the number of gas well completions, High Arctic's overall equipment utilization was strong in the first half of the year. High Arctic has improved or maintained its market share in terms of overall natural gas well completions and has benefited from the trend to longer reach horizontal wells as the Company's services are in demand for completion of wells using multi-stage fracs that are the primary driver of current activity levels.

The Company's PNG activity is based on longer term contracts and thus is less affected in the short term by the volatility of oil and gas prices. Those contracts are denominated in U.S. dollars. The U.S. dollar was up modestly in the first half of 2012 compared to the same period in 2011 which had a slightly positive impact on the financial results for PNG in the quarter as compared to 2011.

The activity levels of our major customer in PNG is less dependent on short term fluctuations in oil and gas prices and instead is based on long term decisions, particularly with its significant interest in a large scale LNG project currently under construction. Substantially all of their existing production is crude oil with the price tied more closely to Brent crude oil prices, rather than West Texas pricing, and we understand that their gas output is contracted at a price tied to world oil prices on an energy equivalent basis. The geographical diversification in PNG effectively provides High Arctic with exposure to world oil prices.

Outlook

Management expects some reduction in activity levels in Canada for the second half of 2012 compared to 2011 due to the continued weak gas prices. This could in turn lead to some pressure on day rates. Activity levels will be strongest in the liquids rich and unconventional shale gas plays which we hope will continue near 2011 levels, although larger declines are possible and the current gas oversupply situation could curtail activity further if more wells are forced to shut in and are unable to produce the associated liquids. The activity in the Montney and other deep basin plays of northwest Alberta and northeast British Columbia are expected to remain the strongest as producers focus on the reservoirs offering the highest liquids content. The growing interests in Canadian gas prospects by Asian based energy companies is encouraging in terms of bringing new capital to the industry and hopefully ultimately leading to improved access to Asian markets.

The Company expects that its customers will continue to focus on the longer reach horizontal wells, while striving to improve drilling and completion efficiencies, such as through increased use of multi-well pads and 24-hour operations. Our Stand Alone units with their small, environmentally friendly footprint and ability to work on pressurized wellbores are well suited to drill out the plugs and to complete the pressurized long lateral horizontal wells associated with the multi-stage fracs. The increased complexity and lateral length of these horizontal wells has increased our average time spent per wellbore. When combined with rate increases, our average revenue per well has been increasing, while the multi-wells per pad is further increasing the time spent per location. Our snubbing and nitrogen offerings are complementary services that are commonly used in the same wellbores so we typically have multiple services on the same location, adding additional revenue per location. We are exploring additional complementary services to further increase revenue per location. High Arctic will continue to adapt its snubbing and well completion technologies to the emerging needs of its customers as part of its effort to increase its market share in well completion services. .

In June, 2012, one of High Arctic's 250K Underbalanced Workover Rigs commenced a program to complete multiple horizontal wells each with lateral legs pushing the current limits. Operators continue to increase the lateral length of the wells and coil tubing has struggled on wells over 6000 meters. Each of High Arctic's three 250K UB units have a large push and pull capability and high torque rotary and are not constrained by the length of a coil spool, providing a possible solution to extend the lateral length. High Arctic is also investigating other uses for the underutilized three 250K UB units in order to expand its revenue base and to increase its exposure to oil wells.

Activity in PNG should continue to be strong leading to more growth opportunities for High Arctic. Rigs 103 and104 and the related support services have been contracted until December 2013 and Rig 102 is contracted until May 2014. Those long term contracts provide a stable base of activity and we are currently ramping up to move from a one rig drilling program to two rigs during the fourth quarter of 2012. The hydraulic workover Rig 102 is also scheduled to work the remainder of 2012 for that customer. We will continue to invest in our relationship with that key customer to ensure we continue to meet their expectations with an emphasis on maintaining our versatility and effectiveness across multiple remote locations, recruiting experienced crews for the start-up of the second drilling rig and an even stronger focus on HSE training for both our own employees and third party contractors. We have recently contracted to bring in a new camp for that customer and are exploring other equipment and services that we can provide.

Drilling opportunities with other operators in PNG remain possibilities, but more likely to be realized in 2013 and beyond. We should also continue to see growth in our rental business in PNG that services an increasing base of customers. High Arctic provides drilling support equipment on a rental basis to a number of customers in Papua New Guinea. The matting rental business has expanded significantly over the past 18 months. The Company currently has firm contracts for all 5,900 Dura-Base® mats currently in the country and High Arctic has a further 1,500 on order for delivery in the fourth quarter to fulfill two firm contracts. The Company will continue to pursue opportunities to expand that business line and increase its rental fleet.

In 2012 and beyond, the Company will continue to invest in growth opportunities to enhance shareholder value. Capital has been allocated for the year to fund additional purchases of $17.3 million for growth capital in PNG. We are also increasing and upgrading our Canadian fleet. During the second quarter, the Company placed orders for the new build of 2 nitrogen pumper units. These units are expected to be deployed towards the latter half of the year. Additionally, we will continue with our program to upgrade and retrofit our Canadian equipment fleet to ensure we remain leaders in service and quality in our markets. Capital spending of up to $29.0 million has been planned under the revised capital budget for 2012, though plans may be adjusted in accordance with changes in market conditions, the ability to secure contracts with acceptable returns and to take advantage of opportunities that may present themselves.

Customer Concentration

The Company's account receivables are predominantly with customers who explore for and develop petroleum reserves and are subject to normal industry credit risks. The Company assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding. The Company 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 Company has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Company has two very significant customers. Services are provided to the first significant customer in Papua New Guinea. That customer represents approximately 78% and 62% of the Company's revenue for the three and six months ended June 30, 2012, respectively, (55% and 44% for the three and six months ended June 30, 2011) and 63% of its accounts receivable at June 30, 2012 (36% at June 30, 2011). The second significant customer is a major Canadian exploration and production company which represents approximately 5% and 11% of the Company's revenue for the three months and six months ended June 30, 2012, respectively, (10% and 14% for the three months and six months ended June 30, 2011) and 4% of the Company's accounts receivable at June 30, 2012 (8% at June 30, 2011). The services provided to this customer are distributed within this customer's diverse locations of operations within Canada which management believes limits the risk of concentrating a significant portion of its revenue on this customer. Management has assessed the two customers as highly creditworthy and the Company has had no history of collection issues with either customer.

Commitments and Contingencies

Accounts Receivable

The Company has commenced litigation against a customer with respect to collection of a receivable for services rendered outside Canada. The Company believes it has made an adequate provision for the possibility of non-collectable amounts. The customer has made a number of allegations and initiated a counter claim of $5.0 million concerning performance issues and the cashing of the letter of credit of $1.0 million. The Company has not recorded an accrual in relation to the counter claim as management believes that the claim is without merit.

Inventory

The Company has been supplied with an inventory of spare parts with a value of US$5.5 million by a customer in Papua New Guinea. The inventory is owned by the customer and has not been recorded on the books of High Arctic. At the end of the contract, the Company must return an equivalent inventory to the customer. The Company believes it currently has sufficient inventory on hand to meet that obligation and accordingly no provision has been made for any potential shortfall.

Other

The Company has posted a performance bond of approximately US$3.8 million, in respect of a contract in the Middle East region, and would be liable if the bond was called as a result of a default by the Company in the performance of its obligations under the contract. The expiry date of the performance bond is March 30, 2013. Under the terms of the contract, the

Company could be obligated to provide up to five rigs that may not be available if requested. As at June 30, 2012, the Company was not providing any services under that contract. The primary term of the contract ends in August, 2012.

Contractual Obligations

In addition to the commitments and contingencies noted above and the related party transactions noted below, in the normal course of business, the Company incurs contractual obligations.

The following are the Company's contractual obligations as at June 30, 2012:

	Payments Due by Period				
$ millions	**Total**	**Less than 1 Year**	**1 – 3 Years**	**4 – 5 Years**	**After 5 Years**
Credit facility obligations[1]	15.0	5.0	10.0	-	-
Operating lease obligations	1.2	0.6	0.6	-	-
Total obligations	16.2	5.6	10.6	-	-

(1) Excludes debt transaction costs of $0.2 million

Risk Management and Uncertainties

The success of the Company is dependent to a great extent on the health of the oil and natural gas industry in Canada and internationally which, in turn, is driven in large part by commodity prices. As a service provider to this industry, the Company is exposed to various risks, including:

- volatility 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;
- uncertainties in weather affecting the duration of the service periods and the activities that can be completed, including the seasonality that affects industry activity in Canada;
- reduction in industry activity levels in western Canada, primarily due to a recent period of lower natural gas prices and impacts (see above);
- changes in legislation and the regulatory environment, including uncertainties with respect to implementing environmental initiatives;
- alternatives to and changing demands for petroleum products;
- the worldwide demand for oilfield services in connection with the underbalanced drilling, workover and completion of oil and gas wells;
- general economic conditions in Canada, the United States and Southeast Asia including variations in currency exchange rates and interest rates;
- liabilities and risks inherent in oil and gas operations, including environmental liabilities and risks arising below ground surface;
- credit risks associated with customers in the oil and gas industry, including the inability of a significant customer to pay for goods and services that have been provided;

- risks inherent in foreign operations, including political and economic risk and the risk of foreign currency controls that could restrict the transfer of funds in or out of countries in which the Company operates or result in the imposition of taxes on such transfers; and

- regional and international competition.

These factors may have an impact upon the Company's customer base which, in turn, would impact the Company's business prospects.

The Company is also subject to specific risks.

Financing Risk

The Company is exposed to risk associated with access to equity capital and debt financing required for business needs and to repay existing debt financing and the risk that necessary capital cannot be acquired on a timely basis, on reasonable terms to the Company, or at all. The covenants and security granted under its credit facility could limit its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Where additional financing is raised by the issuance of common shares or securities convertible into common shares, control of the Company may change and shareholders may suffer dilution to their investment.

Liquidity Risk

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

Customer Concentration

Please refer to "Customer Concentration" section above.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk as the term loan is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. For the three and six months ended June 30, 2012, a 1% nominal change in the interest charged to the Company under its credit facility would have changed interest expense by less than $0.1 million and by $0.1 million, respectively, ($0.1 million and $0.1 million for the three and six months ended June 30, 2011).

Income Tax Risk

The Company has risks for income tax matters, including the unanticipated tax and other expenses and liabilities of the Company due to changes in income tax laws.

The Company 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 Company.

Operational Risk and Insurance

High Arctic's operations are subject to operational risks inherent in the oil and gas services industry. These risks include equipment defects, malfunctions and failures, natural disasters, 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 interruptions, and damage to or destruction of property and equipment. High Arctic continuously monitors its activities for quality control and safety in order to reduce the risk. The Company has obtained insurance against certain risks; however, such insurance may not be adequate to cover High Arctic's liabilities and may not be available in the future at rates which High Arctic considers reasonable and commercially justifiable.

Reliance on Key Personnel

The success of the Company is dependent upon its key personnel. Any loss of the services of such persons could have a material adverse effect on the business and operations of the Company. The Company'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 Company 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.

Credit Risk

The Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. During times of weak economic conditions, the risk of increased payment delays and default increases due to reductions in customers' cash flows. Failure to collect accounts receivable from customers could have a material adverse effect on the Company'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.

Risk of Foreign Operations

The Company operates in international locations, including Papua New Guinea, where the political and economic systems differ from those in Canada. Operations in these countries may be subject to a variety of risks including, but not limited to: currency fluctuations, devaluations and exchange controls; inflation; uncertain political and economic conditions resulting in unfavourable government actions such as unfavourable legislation or regulation, trade restrictions, unfavourable tax enforcement or adverse tax policies; the denial of contract rights; and social unrest, acts of terrorism or armed conflict. To attempt to mitigate these risks, the Company employs personnel with extensive experience in the international marketplace, supplemented with qualified local staff.

Foreign Exchange Rate Risk

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

For the three and six months ended June 30, 2012, a 1% nominal change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $0.1 million and $0.2 million ($0.1 million and $0.1 million for the three and six months ended June 30, 2011) change in other comprehensive income as a result of changes in foreign exchange.

Commodity Price Risk

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

Dependence on Suppliers

High Arctic sources supplies and materials from a variety of suppliers in Canada and elsewhere. Failure of suppliers to deliver supplies and materials in a timely and efficient manner would be detrimental to the Company's ability to maintain the expected level of service to its customers. 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.

Competition

The Company's continued success partially depends upon developing and implementing technological advances in its equipment and services and the ability to match advances of competitors. The oilfield services industry is highly competitive

and the Company competes with a substantial number of companies. Reduced levels of activity in the oil and gas industry can intensify competition, which will have an effect on the Company's ability to generate revenue and earnings.

Other

Additional risk factors relating to the Company are also outlined in the Annual Information Form for 2011, filed on SEDAR at www.sedar.com.

Critical Accounting Estimates

The Company's significant accounting policies are described in Note 3 to the Annual Financial Statements for the year ended December 31, 2011. The preparation of the Company's Financial Statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. The accounting policies and practices that involve the use of estimates that have a significant impact on the Company's financial results include the allowance for doubtful accounts, property and equipment, depreciation and amortization, the fair value of financial instruments, income taxes and share-based compensation.

Allowance for doubtful accounts
The Company performs ongoing credit evaluations of its customers and grants credit based upon a review of historical collection experience, current aging status and financial condition of the customer and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions.

Amortization
Amortization of the Company's property and equipment incorporates estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change, thereby impacting the value of the Company's property and equipment.

Fair value of financial instruments
The Company's financial instruments that are included in the consolidated statement of financial position are comprised of cash and cash equivalents, accounts receivable, current liabilities including the credit facility. The fair values of financial instruments that are included in the consolidated statement of financial position approximate their carrying amounts due to the short-term maturity of those instruments.

Income taxes
Deferred income tax liabilities and assets are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. The Company's calculation of income taxes involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations.

Share-based compensation
The fair value of stock options is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions, related to the risk-free interest rate, average expected option life, estimated forfeitures and estimated volatility of the Company's shares. The fair value of the shares under the share incentive plan is recognized based on the market value of the Company's shares, the vesting period of the plan and the estimated forfeitures.

Related Party Transactions

On or about May 15, 2011, High Arctic made loans to certain directors and officers of the Company in the total aggregate amount of $1.1 million. The purpose of the loans was to assist the directors and officers with the payment of Canadian income taxes arising on the issuance of common shares of the Company pursuant to the Company's Executive and Director Share Incentive Plan.

The principal amount of each loan bears interest at an annual rate of 2%. Each loan is fully payable on the earlier of (i) thirty days after the date that a Borrower ceases to be an employee or director of the Company and (ii) April 15, 2014. As at June 30, 2012, the outstanding amount related to these loans was $0.6 million.

Future Accounting Changes

Prior to the adoption of IFRS by the Company, the International Accounting Standards Board ("IASB") issued the following new standards which become effective for annual period beginning on or after January 1, 2013:

IFRS 9
IFRS 9, "Financial Instruments" amends the classification and measurement criteria for financial instruments included within the scope of IAS 39. Financial assets will be measured at fair value or amortized cost and the available for sale category will be eliminated. If an equity investment is not required to be classified as held for trading, an irrevocable election can be made upon initial recognition to measure at fair value through other comprehensive income. Financial liabilities will be classified at amortized cost except for financial liabilities at fair value through profit and loss, financial guarantee contracts and commitments to provide a loan at a below market interest rate. A fair value option is available for both financial assets and liabilities as an alternative to amortized cost if certain conditions are met. The Company is analyzing the impact the new standard will have on its financial assets and liabilities.

IFRS 10 & IAS 27
IFRS 10, "Consolidated financial statements", is part of the group of five new standards that address the scope of the reporting entity. IFRS 10 replaces all of the guidance on control and consolidation in IAS 27, "Consolidated and separate financial statements", and SIC-12, "Consolidation − special purpose entities". IAS 27 is renamed "Separate financial statements"; it continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The changed definition and application guidance is not expected to result in a change in the consolidation decisions made by the Company.

IFRS 11
IFRS 11, "Joint Arrangements"; changes in the definition for the 'types' of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. Entities that participate in joint operations will follow accounting much like that for joint assets or joint operations today. Entities with existing joint arrangements or that plan to enter into new joint arrangements will be affected by the new standard. The Company does not have any joint arrangements and does not expect this change to have any impact on its reporting.

IFRS 12 & IAS 28
IFRS 12, "Disclosure of Interests in Other Entities", sets out the required disclosures for entities reporting under the two new standards, IFRS 10, "Consolidated financial statements", and IFRS 11, "Joint arrangements"; it replaces the disclosure requirements currently found in IAS 28, "Investments in associates". The existing guidance and disclosure requirements for separate financial statements are unchanged. The new standard, IFRS 12, requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Company is analyzing the impact the new standard will have on its consolidated financial statements.

IFRS 13
IFRS 13, "Fair Value Measurement", defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. The IFRS 13 applies to IFRS standards that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IAS 1
In June 2011, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" ("IAS 1") requiring companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. This amendment to IAS 1 is effective for annual periods beginning on or after July 1, 2012 with full retrospective application. Early adoption is permitted. The Company is currently evaluating the impact of adopting this amendment on its Consolidated Financial Statements.

IFRS 7 and IAS 32
In December 2011, the IASB issued the following amended standards:

- IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"), has been amended to provide more extensive quantitative disclosures for financial instruments that are offset in the statement of financial position or that are subject to enforceable master netting or similar arrangements. IAS 32, "Financial Instruments: Presentation" ("IAS 32"), has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset must be available on the current date and cannot be contingent on a future event.

The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013 and the amendments to IAS 32 are effective for annual periods that begin on or after January 1, 2014, both requiring retrospective application.

The Company is currently evaluating the impact of adopting the amendments to IFRS 7 and IAS 32 on its Consolidated Financial Statements.

Disclosure Controls and Procedure

The Company has established disclosure controls and procedures, as defined in National Instrument 52-109, to ensure timely and accurate preparation of financial and other reports. Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to the appropriate members of management and properly reflected in the Company's filings. The Chief Executive Officer and the Chief Financial Officer oversee this evaluation process and have concluded that the design and operation of these disclosure controls and procedures are adequate in ensuring that the information required to be disclosed by the Company in reports filed with the Canadian Securities Administrators is accurate and complete and filed within the time periods required. The Chief Executive Officer and the Chief Financial Officer have individually signed certifications to this effect.

Internal Controls Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate Internal Controls over Financial Reporting ("ICFR"). Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls become inadequate because of changes in conditions or personnel, or that the degree of compliance with the policies or procedures may deteriorate.

The Company has adopted the Committee of Sponsoring Organizations of the Treadway Commission framework to design ICFR. In the fourth quarter of 2011, the Company with the assistance of external consultants performed testing to ensure that processes and controls were operating effectively. Based upon their evaluation of the ICFR, the Chief Executive Officer and the Chief Financial Officer have satisfied themselves that the ICFR 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. While the Company is continually improving its ICFR, no material changes were made during the three months ended June 30, 2012 that would materially affect or are reasonably likely to materially affect the Company's ICFR.

Financial Measures

This MD&A contains references to certain financial measures that do not have a standardized meaning prescribed by IFRS or previous Canadian GAAP and may not be comparable to other companies. High Arctic uses these financial measures to assess performance and believes these measures provide useful supplemental information to shareholders' and investors. These financial measures are computed on a consistent basis for each reporting period and include the following:

EBITDA
Management believes that, in addition to net earnings reported in the consolidated statement of income, EBITDA (earnings before interest, taxes and depreciation and amortization) is a useful supplemental measure of the Company's performance

prior to consideration of how operations are financed or how results are taxed or how depreciation and amortization affects results. EBITDA is not intended to represent net earnings calculated in accordance with IFRS.

Adjusted EBITDA
This measure is used by management to analyze EBITDA (as referred to above) prior to the effect of share-based compensation, gain on sale of assets or investments and foreign exchange gains or losses, and is not intended to represent net earnings as calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of net earnings to EBITDA and Adjusted EBITDA for the three and six months ended June 30, 2012 and 2011:

	Three months ended June 30, 2012	Three months ended June 30, 2011
Net earnings (loss)	5.7	(0.1)
Add (deduct)		
Interest and finance expenses	0.4	0.3
Income taxes	(3.8)	1.0
Amortization	2.3	2.2
EBITDA	**4.6**	**3.4**
Add (deduct)		
Share-based compensation	0.4	0.4
Foreign exchange (gain) loss	0.2	0.1
Adjusted EBITDA	**5.2**	**3.9**

	Six months ended June 30, 2012	Six months ended June 30, 2011
Net earnings	16.4	7.2
Add (deduct)		
Interest and finance expenses	0.6	1.2
Income taxes	(3.0)	2.0
Amortization	4.6	4.0
EBITDA	**18.6**	**14.4**
Add (deduct)		
Share-based compensation	0.8	1.9
Gain on sale of investments	-	(2.0)
Foreign exchange (gain) loss	0.1	0.1
Adjusted EBITDA	**19.5**	**14.4**

Operating Earnings
Management believes that in addition to net earnings, operating earnings reported in the Consolidated Statements of Income is a useful supplemental measure as it provides an indication of the results generated by High Arctic's principal business activities prior to consideration of how those activities are financed or how the results are taxed. Operating earnings is not intended to represent net earnings calculated in accordance with IFRS.

Oilfield Services Operating Margin
Oilfield services operating margin is used by management to analyze overall operating performance. Oilfield services operating margin is not intended to represent operating income nor should it be viewed as an alternative to net earnings or other measures of financial performance calculated in accordance with IFRS. Oilfield services operating margin is calculated as revenue less oilfield services expense.

Oilfield Services Operating Margin %
Oilfield services operating margin % is used by management and investors to analyze overall operating performance. Oilfield services operating margin % is calculated as oilfield services operating margin divided by revenue.

Cash Flow Provided by Operations
Management believes that, in addition to net cash generated from operating activities as reported in the Consolidated Statements of Cash Flow, cash flow from operating activities before working capital adjustments is a useful supplemental measure as it provides an indication of the funds generated by High Arctic's principal business activities prior to consideration of changes in items of working capital.

Operating working capital
Operating working capital is used by management and the investment community as another measure to analyze the operating liquidity available to the Company. It is defined as current assets less current liabilities (excluding the current portion of the long-term debt and deferred taxes).

Net debt and net cash
Net debt is used by management and the investment community to analyze the amount of total debt that would be remaining after cash balances are applied against the debt. The amount, if any, is calculated as total debt (including current portion) less cash and cash equivalents. Net cash is the amount by which the cash and cash equivalents exceed the total amount of debt.

Market capitalization
Market capitalization is used by management and the investment community to calculate the approximate fair value of the Company's equity based on the current trading value of the common shares on the Toronto Stock Exchange and is calculated as the total number of shares outstanding multiplied by the Company's share price at a point in time.

Subsequent Events

There have been no material events subsequent to June 30, 2012 up to the date of this report.

Additional Information

Additional information on the Company, including the Annual Information Form for the Year ended December 31, 2011, can be found on SEDAR at www.sedar.com.

High Arctic Energy Services Inc.

Consolidated Statements of Financial Position
As at June 30, 2012 and December 31, 2011
(Canadian $ Million - Unaudited)

	Notes	June 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		27.6	16.5
Accounts receivable	4	16.1	19.2
Inventories		3.7	3.4
Prepaid expenses		0.6	0.7
Income tax receivable		2.4	1.0
		50.4	40.8
Non-current assets			
Loans receivable	10	0.6	0.8
Property and equipment	5	54.2	51.9
Deferred tax asset	18	5.0	-
Total assets		**110.2**	**93.5**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	6	13.9	11.6
Income taxes payable		-	0.1
Current portion of long-term debt	7	4.8	4.8
		18.7	16.5
Non-current liabilities			
Long-term debt	7	10.0	12.4
Deferred income taxes payable		1.0	1.0
Total liabilities		**29.7**	**29.9**
Shareholders' equity		**80.5**	**63.6**
Total liabilities and equity		**110.2**	**93.5**

Commitments and contingencies 12, 15

See accompanying notes to these consolidated Interim Financial Statements.

Approved on behalf of the Corporation by:

(signed) "Michael Binnion" Director (signed) "Christopher Warren" Director

High Arctic Energy Services Inc.

Consolidated Statements of Income(Loss)
For the three and six months ended June 30, 2012 and 2011
(Canadian $ Million, except per share amounts - Unaudited)

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2012	**2011**	**2012**	**2011**
Revenue	17	29.6	24.9	71.8	60.8
Expenses					
Oilfield services		22.2	19.0	47.9	42.4
General and administration		2.2	2.0	4.4	4.0
Share-based compensation	9	0.4	0.4	0.8	1.9
Amortization	5	2.3	2.2	4.6	4.0
Gain on sale of investment	11	-	-	-	(2.0)
Foreign exchange loss		0.2	0.1	0.1	0.1
		27.3	23.7	57.8	50.4
Operating earnings for the period		**2.3**	**1.2**	**14.0**	**10.4**
Interest and finance expense		0.4	0.3	0.6	1.2
Net earnings before income taxes		**1.9**	**0.9**	**13.4**	**9.2**
Current income tax expense		1.2	1.0	2.0	2.0
Deferred income tax (recovery)	18	(5.0)	-	(5.0)	-
Net earnings (loss) for the period		**5.7**	**(0.1)**	**16.4**	**7.2**
Earnings per share:	8				
Basic		**0.12**	**0.00**	**0.36**	**0.16**
Diluted		**0.12**	**0.00**	**0.35**	**0.15**

See accompanying notes to these consolidated Interim Financial Statements.

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2012	**2011**	**2012**	**2011**
Net earnings (loss) for the period		**5.7**	**(0.1)**	**16.4**	**7.2**
Other comprehensive income					
Foreign currency translation losses for foreign operations		1.1	(0.5)	0.2	(1.3)
Total comprehensive income for the period		**6.8**	**(0.6)**	**16.6**	**5.9**

See accompanying notes to these consolidated Interim Financial Statements.

High Arctic Energy Services Inc.

Consolidated Statements of Changes in Equity
For the periods ended June 30, 2012 and 2011
(Canadian $ Million - Unaudited)

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained (deficit)	Total equity (deficiency)
Balance at December 31, 2011		**167.9**	**6.6**	**(1.3)**	**(109.6)**	**63.6**
Net earnings for the period		-	-	-	16.4	16.4
Dividends paid	8	-	-	-	(0.5)	(0.5)
Other comprehensive income - foreign currency translation differences		-	-	0.2	-	0.2
Normal course issuer bid		(0.3)	0.2	-	-	(0.1)
Share-based payment transactions	9	0.8	0.1	-	-	0.9
Balance at June 30, 2012		**168.4**	**6.9**	**(1.1)**	**(93.7)**	**80.5**

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained (deficit)	Total equity (deficiency)
Balance at December 31, 2010		**165.4**	**6.3**	**(2.3)**	**(127.6)**	**41.8**
Net Earnings for the period		-	-	-	7.2	7.2
Other comprehensive income - foreign currency translation differences		-	-	(1.3)	-	(1.3)
Share-based payment transactions	9	1.8	0.1	-	-	1.9
Balance at June 30, 2011		**167.2**	**6.4**	**(3.6)**	**(120.4)**	**49.6**

See accompanying notes to these consolidated Interim Financial Statements.

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flow
For the three and six months ended June 30, 2012 and 2011
(Canadian $ Million - Unaudited)

		Three Months Ended June 30		Six Months Ended June 30	
	Notes	**2012**	**2011**	**2012**	**2011**
Operating activities					
Net earnings for the period		5.7	(0.1)	16.4	7.2
Adjustments for:					
Amortization	5	2.3	2.2	4.6	4.0
Deferred income tax recovery	18	(5.0)	-	(5.0)	-
Deferred income tax liability		-	0.2	-	-
Share-based compensation	9	0.4	0.4	0.8	1.9
		3.4	2.7	16.8	13.1
Net changes in items of working capital	16	8.1	4.3	3.8	3.9
Net cash generated from operating activities		**11.5**	**7.0**	**20.6**	**17.0**
Investing activities					
Property and equipment		(5.3)	(5.8)	(6.9)	(9.0)
Reimbursable cost recovery for equipment		-	-	-	1.5
Net cash generated used in investing activities		**(5.3)**	**(5.8)**	**(6.9)**	**(7.5)**
Financing activities					
Dividend payments	8	(0.5)	-	(0.5)	-
Issuance of common shares	8	0.2	-	0.2	-
Purchase of common shares for cancelation	8	(0.1)	-	(0.1)	-
Loan receivable		0.2	(0.8)	0.2	(0.8)
Advance of long-term debt		-	20.0	-	20.0
Repayment of long-term debt	7	(1.3)	-	(2.5)	-
Debt transaction costs	7	-	(0.4)	-	(0.4)
Repayment of credit facility	7	-	(23.7)	-	(36.5)
Net cash used in financing activities		**(1.5)**	**(4.9)**	**(2.7)**	**(17.7)**
Net change in cash		**4.7**	**(3.7)**	**11.0**	**(8.2)**
Effect of exchange rate changes		0.4	(0.3)	0.1	(0.7)
Net change in cash and cash equivalents		**5.1**	**(4.0)**	**11.1**	**(8.9)**
Cash and cash equivalents – Beginning of period		**22.5**	**19.4**	**16.5**	**24.3**
Cash and cash equivalents – End of period		**27.6**	**15.4**	**27.6**	**15.4**

1 General Information

High Arctic is incorporated under the laws of Alberta, Canada and is a publicly traded company listed on the Toronto Stock Exchange under the symbol "HWO".The head office of the Corporation is located at 8112 Edgar Industrial Drive, Red Deer, Alberta, Canada, T4P 3R2. High Arctic's principal focus is to provide contract drilling, specialized well completion services, equipment rentals and other services to the oil and gas industry in Canada and Papua New Guinea.

2 Basis of Preparation and Adoption of IFRS

These Interim Financial Statements have been prepared in accordance with International Financial Reporting standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of Interim Financial Statements, including IAS 34. The accounting policies used in these interim financial statements are consistent with those used in the December 31, 2011 consolidated financial statements prepared in accordance with IFRS as issued by IASB.

The policies applied in these condensed Interim Financial Statements are based on IFRS issued and outstanding as of August 10, 2012, the date the Board of Directors approved the statements.

The Interim Financial Statements do not include all the information and disclosures required in the consolidated annual financial statements, and should be read in conjunction with the Corporation's consolidated annual financial statements as at December 31, 2011 which have been prepared in accordance with IFRS and with the consolidated interim financial statements for the six months ended June 30, 2011.

These Interim Financial Statements are presented in Canadian dollars.

The consolidated interim financial statements ("Interim Financial Statements") of High Arctic Energy Services Inc. ("High Arctic" or the "Corporation") for the period ended June 30, 2012 were authorized by the Board of Directors on August 10, 2012.

3 Key Sources of Estimation Uncertainty

The preparation of the Corporation's Interim Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. The accounting policies and practices that involve the use of estimates that have a significant impact on the Corporation's financial results include the allowance for doubtful accounts, depreciation and amortization, impairment of property and equipment, income taxes and share-based compensation.

Allowance for doubtful accounts

The Corporation performs ongoing credit evaluations of its customers and grants credit based upon a review of historical collection experience, current aging status, the financial condition of the customer and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions.

Amortization

Amortization of the Corporation's property and equipment incorporates estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change, thereby impacting the value of the Corporation's property and equipment.

Income taxes
Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. The Corporation's calculation of income taxes involves many complex factors as well as the Corporation's interpretation of relevant tax legislation and regulations.

Share-based compensation
The fair value of stock options is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions, related to the risk-free interest rate, average expected option life, estimated forfeitures and estimated volatility of the Corporation's shares. The fair value of the shares issued under the Executive and Directors Share Incentive Plan is recognized based on the trading value of the Corporation's shares, the vesting period of the plan and the estimated forfeitures.

4 Accounts Receivable

The aging of accounts receivables is presented below. The allowance for doubtful accounts provision is based on an individual account by account analysis and the customer's prior credit history. The Corporation's normal credit terms are net 30 days.

	June 30, 2012	December 31, 2011
Less than 31 days	13.2	12.5
31 to 60 days	2.2	5.9
61 to 90 days	0.3	1.1
Greater than 90 days	0.9	0.2
Allowances for doubtful accounts	(0.5)	(0.5)
Total	**16.1**	**19.2**

The Corporation's accounts receivables are denominated in the following currencies:

	June 30, 2012	December 31, 2011
Canadian dollar	2.7	11.4
United States dollar	13.4	7.8
Total	**16.1**	**19.2**

5 Property and Equipment

The following table reconciles the changes in property and equipment during the period.

Cost	Light vehicles	Heavy trucks	Computer software	Oil Field Equipment	Leasehold improve-ments	Computer hardware and office equipment	Work-in-progress	Total
Balance December 31, 2011	**2.6**	**19.5**	**1.1**	**102.8**	**0.6**	**1.0**	**1.0**	**128.6**
Additions	0.2	-	-	2.0	-	0.1	4.6	**6.9**
Disposals	(0.1)	-	-	-	-	-	-	**(0.1)**
Effect of foreign currency exchange	-	-	-	0.1	-	-	-	**0.1**
Balance June 30, 2012	**2.7**	**19.5**	**1.1**	**104.9**	**0.6**	**1.1**	**5.6**	**135.5**

Accumulated amortization and impairments	Light vehicles	Heavy trucks	Computer software	Oil Field Equipment	Leasehold improve-ments	Computer hardware and office equipment	Work-in-progress	Total
Balance December 31, 2011	**1.0**	**14.5**	**1.0**	**59.3**	**0.2**	**0.7**	**-**	**76.7**
Amortization for the period	0.2	0.4	0.1	3.8	-	0.1	-	**4.6**
Disposals	-	-	-	-	-	-	-	**-**
Effect of foreign currency exchange	-	-	-	-	-	-	-	**-**
Balance June 30, 2012	**1.2**	**14.9**	**1.1**	**63.1**	**0.2**	**0.8**	**0.0**	**81.3**
Carrying amounts								
At December 31, 2011	**1.6**	**5.0**	**0.1**	**43.5**	**0.4**	**0.3**	**1.0**	**51.9**
At June 30, 2012	**1.5**	**4.6**	**0.0**	**41.8**	**0.4**	**0.3**	**5.6**	**54.2**

6 Accounts Payable and Accrued Liabilities

	June 30, 2012	December 31, 2011
Accounts payable	7.7	6.4
Accrued liabilities	2.4	3.5
Accrued payroll	3.8	1.7
Total	**13.9**	**11.6**

7 Long-Term Debt

The Corporation's credit facilities consist of a capital loan with an initial balance of $20 million and a four year amortization, a $5.0 million two year committed revolving evergreen loan and a $5.0 million demand revolving operating loan. The credit facilities are secured by all the assets of the Canadian parent and by guarantees of its foreign subsidiaries.

The capital loan is subject to quarterly principal payments of $1.25 million. The capital loan carries an annual interest rate of the bank's prime interest rate plus 1.75% and has a maturity date of August 31, 2013. The effective interest rate on the capital loan was 5% for the period from January 1, 2012 to June 30, 2012.

The $5.0 million revolving evergreen loan can be used for the acquisition of equipment to be purchased and held in Canada. The evergreen loan requires monthly principal payments equal to 1/48th of each advance drawn on the facility commencing in the month following the month the advance is drawn. The interest rate for this facility is the bank's prime interest rate plus 1.25%. As at June 30, 2012, the Corporation has not drawn against the evergreen loan. The maturity date is August 31, 2013.

The $5.0 million demand revolving operating loan facility may be drawn to a maximum of 75% of the eligible Canadian accounts receivable, less certain priority claims, and 90% of the eligible foreign accounts receivable insured by a lender approved insurer. The annual interest rate for this facility is the bank's prime interest rate plus 1.25%. As at June 30, 2012, the Corporation has not drawn against the revolving operating loan.

	June 30, 2012	December 31, 2011
Principal amount of capital loan	15.0	17.5
Less: debt transaction costs	(0.2)	(0.3)
	14.8	17.2
Less: current portion of long-term debt	**4.8**	**4.8**
Long term debt balance, end of period	**10.0**	**12.4**

8 Share Capital and Other Components of Equity

(a) Authorized Share Capital

An unlimited number of common shares and an unlimited number of preferred shares may be issued. No preferred shares have been issued to date.

(b) Changes in Issued Shares

	June 30, 2012		December 31, 2011	
	Shares	**$**	**Shares**	**$**
Opening balance	46,080,262	166.1	43,083,752	163.6
Issuance of shares	237,040	0.3	76,510	0.1
Normal course issuer bid	(79,336)	(0.3)	-	-
Vested restricted shares (note 9)	-	-	2,920,000	2.4
Common shares outstanding	**46,237,966**	**166.1**	**46,080,262**	**166.1**
Restricted shares outstanding (note 9)	3,540,000	2.3	3,540,000	1.8
Total common and restricted shares outstanding	**49,777,966**	**168.4**	**49,620,262**	**167.9**

Share Consolidation

On June 15, 2011, the Corporation completed a consolidation of its common shares on the basis of one (1) new post-consolidation common share for every five (5) pre-consolidation common shares. The 252,183,147 common shares outstanding on that date were consolidated into 50,436,637 shares. In the financial statements, the share consolidation was applied retroactively such that the number of common and restricted shares and stock options issued prior to that time have been restated and the outstanding balances and per share information presented accordingly.

Issuance of Shares

For the six months ended June 30, 2012, a total of 237,040 stock options were exercised for shares of the Corporation (see Note 9). For the year ended December 31, 2011, a total of 76,510 stock options were exercised for shares of the Corporation.

Normal Course Issuer Bid

On March 21, 2012, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 5 percent of the Corporation's issued and outstanding common shares under a Normal Course Issuer Bid (the"Bid"). The Corporation may purchase up to 2,418,013 common shares for cancellation subject to a daily purchase limit of 6,248 common shares. The Bid commenced on March 23, 2012 and will terminate on March 22, 2013 or such earlier time as the Bid is completed or terminated at the option of the Corporation. As at June 30, 2012, 79,336 common shares have been purchased and cancelled pursuant to the Bid.

(c) Contributed Surplus

	Six Months Ended June 30, 2012	Year ended December 31, 2011
Opening balance	6.6	6.3
Normal course issuer bid	0.2	
Share-based compensation (Note 9)	0.1	0.3
Closing balance	**6.9**	**6.6**

(d) Per Share Amounts

The following table summarizes the weighted average number of common shares used in calculating basic and diluted earnings per share.

	Three months ended June 30, 2012		Six months ended June 30, 2012		Three months ended June 30, 2011		Six months ended June 30, 2011	
	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share	Number of Shares	Earnings per Share
Weighted average number of common shares used in basic earnings per share	**46,116,402**	**$0.12**	**46,082,881**	**$0.36**	**45,019,682**	**$0.00**	**44,057,061**	**$0.16**
Adjustments for:								
Dilution effect of options and restricted shares	1,180,699		1,242,000		4,013,626		3,817,683	
Weighted average number of common shares used in diluted earnings per share	**47,297,101**	**$0.12**	**47,324,881**	**$0.35**	**49,033,308**	**$0.00**	**47,874,744**	**$0.15**

(e) Dividends

On May 17, 2012, the Corporation instituted a monthly dividend with the first monthly dividend of $0.01 per common share (including the restricted shares) payable on June 14, 2012.

For the three and six months ended June 30, 2012, the Corporation paid dividends of $0.5 million.

9 Share-based Compensation

Stock Option Plan

The Corporation has a Stock Option Plan under which options to purchase common shares may be granted to directors, management and key employees. A total of 4,977,796 options (being 10% of all outstanding shares) are available for grants.

At June 30, 2012, a total of 1,705,200 options are outstanding and expire at various dates up to 2016, at amounts that range from $0.75 to $9.20 per share. These options are exercisable over a term of 5 years and are generally subject to a three year vesting period with 40% exercisable by the holder after the first anniversary date, 70% after the second anniversary date and 100% after the third anniversary date.

	Number of Options	Weighted Average Exercise Price $/Share
Total Outstanding December 31, 2011	**1,244,910**	**1.24**
Granted	728,000	1.53
Exercised	(237,040)	0.76
Expired	(23,300)	3.60
Cancelled/Forfeited	(7,370)	14.74
Total Outstanding June 30, 2012	**1,705,200**	**1.34**

	Options Outstanding			Exercisable Options	
ExercisePrice Range	**Number of Options**	**Remaining Contractual Life (Years)**	**Weighted Average Exercise Price ($)**	**Number of Options**	**Weighted Average Exercise Price ($)**
$0.75 to $0.88	135,500	1.54	0.75	135,500	0.75
$0.89 to $1.02	440,800	3.48	1.00	174,400	1.00
$1.03 to $1.43	393,200	4.45	1.29	22,000	1.32
$1.44 to $1.59	340,000	4.05	1.44	-	-
$1.60 to $9.20	395,700	4.84	1.88	7,700	8.80
Total Outstanding June 30, 2012	**1,705,200**	**3.98**	**$1.34**	**339,600**	**$1.10**

Share-based compensation is a non-cash item and is measured in accordance with a prescribed formula. Share-based compensation expense recognized by the Corporation for the Stock Option Plan for the three and six months ended June 30, 2012 was $0.2 million and $0.3 million respectively (2011 - $0.1 million and $0.1 million) based on amortizing any expense over the vesting period using the Black-Scholes model. The options measured prior to December 31, 2007 used an average risk-free interest rate of 4.2%; average expected life of 5 years; expected volatility of 75%, an expected forfeiture rate of 10.0% and a weighted average estimate of distribution yield of nil. The 2008 options were measured using an average risk-free interest rate of 3.4%; average expected life of 5 years; expected volatility of 67.3%, an expected forfeiture rate of 10.0% and an expected annual dividend yield of nil. The options in 2009 were measured with a weighted average expected volatility of 117.1%; a risk free interest rate of 1.11%; an expected forfeiture rate of 13.4%, an expected annual dividend yield of 0.0% and an expected life of 5 years. The options in 2010 were measured with a weighted average expected volatility of 138.5%; a risk free interest rate of 1.84%; an expected forfeiture rate of 13.4%, an expected annual dividend yield of 0.0% and an expected life of 5 years. The options in 2011 were measured with a weighted average expected volatility of 142.4%; a risk free interest rate of 1.77%; an expected forfeiture rate of 13.4%, an expected annual dividend yield of 0.0% and an expected life of 5 years. The options in 2012 were measured with a weighted average expected volatility of 145.42%; a risk free interest rate of 1.51%; an expected forfeiture rate of 14.05%, an expected annual dividend yield of 7.5% and an expected life of 5 years.

Share Incentive Plan

On June 29, 2010, the shareholders approved an Executive and Director Share Incentive Plan (the "Plan"). The maximum number of common shares initially available for issuance by the Corporation under the Plan was 7,578,444 common shares. These shares are issued in trust for the benefit of designated beneficiaries and vest to each designated beneficiary over a 3 year period. The designated beneficiaries of the restricted common shares held in trust have full voting, liquidity, dividend and other related rights similar to the holders of the unrestricted issued common shares. The shares are not freely tradable prior to vesting and any shares that do meet the vesting conditions are returned by the trustee to the Corporation for cancellation. The number of restricted shares granted is reflected under the total issued and outstanding common shares while the value of these shares will be included in the common share capital amount as they vest over the 3 year vesting period and an equivalent share based compensation amount is recorded. A share-based compensation amount for the common shares issued under the plan is measured as the number of common shares multiplied by the trading price of the Corporation's common shares at the time of the grant and that amount is amortized over the vesting period. Each vesting period is treated as a separate tranche for measurement of the non-cash share-based compensation expense. The share-based compensation for each tranche is expensed based on the vesting date for that tranche resulting in a proportionally greater amount being recognized in the earlier periods.

On September 1, 2010, the Corporation issued 7,100,000 shares under the Plan to a trustee for the benefit of designated directors and executive management. These incentive shares have a three year vesting period with 40% vesting on April 1, 2011, 30% on September 1, 2012 and 30% on September 1, 2013 and a share capital amount of $0.825 per share will be recorded as the related share-based compensation expense is recognized
On March 14, 2011 a further 200,000 shares were granted under the Plan to a trustee for the benefit of designated senior managers. These incentive shares have a three year vesting period with 40% vesting on December 31, 2011, 30% on December 31, 2012 and 30% on December 31, 2013 and a share capital amount of $1.05 per share will be recorded as the related share-based compensation expense is recognized.

Restricted Common Shares Issued under the Share Incentive Plan:

	Six months ended June 30, 2012	Year ended December 31, 2011
Opening balance	3,540,000	7,100,000
Grant of common shares	-	200,000
Vested common shares	-	(2,920,000)
Forfeitures	-	(840,000)
Closing balance	**3,540,000**	**3,540,000**

For the three and six months ended June 30, 2012 the corporation incurred share based compensation expense of $0.2 million and $0.5 million respectively (2011 - $0.3 million and $1.8 million) and an amount of up to $0.7 million (before recognizing a reduction for any future forfeitures of common shares) remains to be amortized in future periods in respect of the common shares issued to date under the Plan.

10 Related Party Transactions

During May, 2011 High Arctic made loans to certain directors and officers of the Corporation in the total aggregate amount of $1.1 million. The purpose of the loans was to assist the directors and officers with the payment of Canadian income taxes arising on the issuance of common shares of the Corporation under the Corporation's executive and director share incentive plan (see Note 9). The amount of each loan was a maximum of 50% of the estimated amount of such taxes payable by the Borrower. The participants of the Plan are subject to taxation immediately upon issuance of the common shares despite the shares being held by a trustee as part of a three year vesting arrangement under the Plan. The principal amount of each loan bears interest at an annual rate of 2%. Each loan is fully payable on the earlier of (i) thirty days after the date that a Borrower ceases to be an employee or director of the Corporation and (ii) April 15, 2014. As at June 30, 2012, the total amount outstanding related to these loans was $0.6 million.

11 Gain on Sale of Investments

In the first quarter of 2011, the Corporation recorded a gain of $2.0 million arising on the sale of shares received as part of a settlement in 2009 of amounts owed to the Corporation by a customer. The shares had no carrying value as the debts had previously been deemed uncollectable and written off and the shares had an uncertain value when acquired. As a result, the full amount of the proceeds of sale of $2.0 million was recognized in operating earnings.

12 Contingent Liabilities and Contingent Assets

Accounts Receivable

The Corporation has commenced litigation against a customer with respect to collection of a receivable for services rendered outside Canada. The Corporation believes it has made an adequate provision for the possibility of non-collectable amounts. 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 $1.0 million. The Corporation has not recorded an accrual in relation to the counter claim as management believes that the claim is without merit.

Inventory

The Corporation has been supplied with an inventory of spare parts with a value of US$5.6 million by a customer in Papua New Guinea. The inventory is owned by the customer and has not been recorded on the books of High Arctic. At the end of the contract, the Corporation must return an equivalent inventory to the customer. The Corporation believes it currently has sufficient inventory on hand to meet that obligation and accordingly no provision has been made for any potential shortfall.

Other

The Corporation has posted a performance bond of approximately US$3.8 million, in respect of a contract in the Middle East region, and would be liable if the bond was called as a result of a default by the Corporation in the performance of its obligations under the contract. The expiry date of the performance bond is March 30, 2013. 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 June 30, 2012, the Corporation was not providing any services under that contract. The primary term of the contract ends in August 2012.

13 Capital Disclosures

The Corporation's capital structure is comprised of shareholders' equity described in Note 8, and the long term debt described in Note 7 less cash and cash equivalents.

	June 30, 2012	December 31, 2011
Shareholders' equity (deficiency)	80.5	63.6
Total long-term debt	14.8	17.2
Cash and cash equivalents	(27.6)	(16.5)
Total Capitalization	**67.7**	**64.3**

The Corporation's goal is to have a capital structure that will provide the capital to meet the needs of its business and instil confidence with investors, creditors and capital markets.

Financing decisions for the foreseeable future will be governed largely by managing the available cash and liquidity available under the Corporation's credit facilities based on the timing and extent of expected operating and capital cash outlays. Future equity financings are a possibility to raise capital for new business opportunities.

The Corporation's loan facilities are subject to four financial covenants, which are reported to the lender on a quarterly basis. These financial covenants are used by management to monitor capital and to assess the funds available to commit for capital expenditures, with the main focus on the Maximum Funded Debt to EBITDA and the Minimum Fixed Charge Coverage Ratios, which are measures that are defined in the lending agreement and have no prescribed meaning under IFRS.

Funded Debt to EBITDA is defined as the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing four quarters. Funded Debt is defined generally as indebtedness and liabilities which constitute debt in accordance with IFRS but excluding accounts payable, other short-term non-interest bearing liabilities and future income taxes. EBITDA is a defined term in the lending agreement and generally means net income plus interest expense, cash taxes payable, depreciation, amortization, future income taxes, share-based compensation and other non-cash expenses and excludes gains or losses from the sale of assets. This ratio must be maintained below 2.00:1. For the rolling four quarters ended June 30, 2012, this ratio was 0.39:1.

Fixed Charge Coverage Ratio is defined as EBITDA less cash taxes, dividends and unfunded capital expenditures divided by the total of principal payments on long-term debt and capital leases plus interest, all calculated on a consolidated basis for the trailing four quarters. This ratio must be maintained above 1.25:1. For the rolling four quarters ended June 30, 2012, this ratio was 5.63:1.

The Corporation remains in compliance with all financial covenants under its credit facility agreement.

14 Financial Instruments and Risk Management

Fair Value of Financial Assets and Liabilities

Accounts receivable and cash and cash equivalents are designated as loans and receivables and recorded at amortized cost, which approximates fair value due to the short-term nature of the instrument. Accounts payable and accrued liabilities and the credit facility are designated as other liabilities and are recorded at cost.

Financial Risks

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

Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk as the capital loan is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. For the three and six months ended June 30, 2012 an increase or decrease in interest expense for each one percent change in interest rates on the loan facility would have amounted to $0.0 million and $0.1 million respectively (2011 - $0.05 million and $0.1 million).

Foreign Currency Risk

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

For the six months ended June 30, 2012, a 1% nominal change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $0.2 million (2011 - $0.1million) change in other comprehensive income as a result of changes in foreign exchange.

Commodity Price Risk

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

Risk of Foreign Operations

The Corporation operates in international locations, including Papua New Guinea, where the political and economic systems differ from those in Canada. Operations in these countries may be subject to a variety of risks including, but not limited to: currency fluctuations, devaluations and exchange controls; inflation; uncertain political and economic conditions resulting in unfavourable government actions such as unfavourable legislation or regulation, trade restrictions, unfavourable tax enforcement or adverse tax policies; the denial of contract rights; and social unrest, acts of terrorism or armed conflict. To attempt to mitigate these risks, the Corporation employs personnel with extensive experience in the international marketplace, supplemented with qualified local staff.

Credit Risk

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

Customers

The Corporation's account receivables are predominantly with customers who explore for and develop petroleum reserves and are subject to normal industry credit risks. The Corporation assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding. The Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation has two significant customers. Services are provided to the first significant customer in Papua New Guinea. That customer represents approximately 78% and 62% of the Corporation's revenue for the three and six months ended June 30, 2012 (2011 - 55% and 44%) and 63% of its accounts receivable at that date% (2011- 50%). The second significant customer is a major Canadian exploration and production company which represents approximately 5% and 11%of the Corporation's revenue for the three and six months ended June 30, 2012 (2011 -10% and 14%) and 4% of the Corporation's accounts receivable at that date(2011-8%). The services provided to this customer are distributed within this customer's diverse locations of operations within Canada, which management believes limits the risk of concentrating a significant portion of its revenue on this customer. Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with either customer.

Liquidity Risk

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

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

	Current	1-2 Years	3-5 Years	Beyond 5 Years	Total
Accounts payable	13.9	-	-	-	13.9
Long-term debt[(1)]	5.0	10.0	-	-	15.0
Total	**18.9**	**10.0**	**-**	**0.0**	**28.9**

(1) excludes debt transaction costs of $0.2 million

15 Operating Lease Arrangements

Lease Obligations

The Corporation has entered into long-term premise leases for operating facilities in Canada. These leases are operating leases and the length of the lease terms are up to four years. All the premise leases in Canada have renewal terms which allow the Corporation to renew the lease for various lengths at the market rates negotiated at the time of renewal.

The minimum lease payments for the next five years as at June 30, 2012 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	0.6	0.6	-	-	**1.2**
Total lease commitments	**0.6**	**0.6**	**-**	**-**	**1.2**

16 Supplemental Cash Flow Information

		Three Months Ended June 30		Six Months Ended June 30	
		2012	**2011**	**2012**	**2011**
Accounts receivable	4	10.3	5.0	3.1	3.9
Inventory and prepaid expenses		0.7	(1.1)	(0.1)	(0.7)
Accounts payable and accrued liabilities	6	(1.1)	1.4	2.3	0.2
Deferred revenue		-	0.1	-	0.4
Income taxes receivable		(1.8)		(1.4)	-
Income taxes payable		-	(1.1)	(0.1)	0.1
		8.1	**4.3**	**3.8**	**3.9**

17 Operating Segments

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

	Three Months Ended June 30		Six Months Ended June 30	
	2012	**2011**	**2012**	**2011**
Revenue				
Canada	4.5	4.4	23.2	20.0
Papua New Guinea and other	25.1	20.5	48.6	40.8
Total	**29.6**	**24.9**	**71.8**	**60.8**
Oilfield services expense	22.2	19.0	47.9	42.4
Oilfield services margin	**7.4**	**5.9**	**23.9**	**18.4**
General and administration	2.2	2.0	4.4	4.0
Share-based compensation	0.4	0.4	0.8	1.9
Amortization	2.3	2.2	4.6	4.0
Gain on sale of investments	-	-	-	(2.0)
Foreign exchange loss (gain)	0.2	0.1	0.1	0.1
Operating earnings from operations	**2.3**	**1.2**	**14.0**	**10.4**

	As at June 30	As at December 30
	2012	**2011**
Current assets		
Canada	17.1	15.9
Papua New Guinea	33.3	24.9
Total	50.4	40.8
Non-current assets		
Canada	34.7	29.9
Papua New Guinea	25.1	22.8
Total	59.8	52.7
Total	**110.2**	**93.5**
Liabilities		
Canada	18.6	21.3
Papua New Guinea	11.1	8.6
Total	**29.7**	**29.9**

18 Income Tax

As at December 31, 2011 no deferred tax asset was recognized in the statement of financial position for the deductible temporary differences that relate to the available Canadian tax pools. The tax pools on that date are as follows:

Available tax pool	As at December 31, 2011
Property and equipment	17.9
Non- capital losses	93.0
Capital losses	2.7
Financing costs	2.7
Total available tax pools	**116.3**
Canadian statutory tax rate	25.0%
Available losses at tax rate	**29.1**

The Corporation determined that sufficient probability of future utilisation existed to record the tax benefit on $20 million of these available tax pools as at June 30, 2012. As a result, the Corporation recorded a deferred tax asset of $5.0 million during the three months ended June 30, 2012.