High Arctic Energy Services Inc.
Management's Discussion and Analysis
For the Three Months Ended March 31, 2014 and 2013

The following Management's Discussion and Analysis ("MD&A") of High Arctic Energy Services Inc. (the "Corporation" or "High Arctic") should be read in conjunction with the unaudited interim consolidated financial statements of High Arctic for the three months ended March 31, 2014 and 2013 and the condensed notes contained therein and the audited consolidated financial statements and notes thereto for the years ended December 31, 2013 and 2012 (the "Financial Statements"). This information is available at SEDAR (www.sedar.com). All financial measures presented in this MD&A are in Canadian dollars unless otherwise indicated. This MD&A is dated May 13, 2014.

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 Corporation's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation's actual results, performance or achievements to vary from those described in this 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 Corporation's services; expectations regarding the Corporation'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 2014 and subsequent periods; projections of market prices and costs; factors upon which the Corporation will decide whether or not to undertake a specific course of operational action or expansion; treatment under governmental regulatory regimes and political uncertainty and civil unrest. With respect to forward-looking statements contained in this MD&A, the Corporation has made assumptions regarding, among other things, its ability to: obtain equity and debt financing on satisfactory terms; market successfully to current and new customers; obtain equipment from suppliers; construct property and equipment according to anticipated schedules and budgets; remain competitive in all of its operations; and attract and retain skilled employees.

The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and elsewhere in this MD&A, along with the risk factors set out in the most recent Annual Information Form 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 are given only as of the date of this MD&A. The Corporation does not assume any obligation to update these forward-looking statements to reflect new information, subsequent events or otherwise, except as required by law.

Corporate Profile

High Arctic is a publicly traded company listed on the Toronto Stock Exchange under the symbol "HWO". The Corporation'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 Papua New Guinea ("PNG") and Canada.

High Arctic's largest operation is in Papua New Guinea where it provides contract drilling and specialized well completion services and supplies rig matting, camps and drilling support equipment on a rental basis. The Corporation owns and operates the only heli-portable hydraulic workover rig in PNG and is contracted to operate two heli-portable drilling rigs owned by a large oil and gas company. The Canadian operation is focused on providing snubbing services, nitrogen supplies and equipment on a rental basis to a large number of oil and natural gas exploration and production companies operating in Western Canada.

Highlights

- Adjusted EBITDA(1)(2) increased by 20% to $15.1 million for the first quarter of 2014 over the same period in 2013 ($12.6 million).
- Operating earnings increased by 20% to $11.8 million for Q1 2014 as compared to $9.8 million for the three months ended March 31, 2013.
- High Arctic increased its monthly dividend to $0.015 per share in March, 2014, a 20% increase from the previous monthly dividend amounts.
- High Arctic successfully mobilised Rig 103 to the first InterOil well location where drilling commenced in late March, 2014.
- The Corporation commenced operations in March, 2014 from its new facility in Grande Prairie, Alberta.
- High Arctic completed negotiations in April, 2014 for a two year drilling services contract which will commence with the spud of the first well, expected to occur in early 2015. In conjunction with the drilling commitment, the Corporation entered into a contract to acquire two heli-portable drilling rigs as announced in a press release on April 9, 2014.

Selected Comparative Financial Information

The following is a summary of selected financial information of the Corporation. All figures are derived from financial information that is prepared or presented in accordance with International Financial Reporting Standards ("IFRS"):

	Three Months Ended March 31			
$ millions (except per share amounts)	**2014**	**2013**	**Change**	**%**
Revenue	**44.5**	**44.8**	**(0.3)**	**(1)**
EBITDA(1)(2)	**14.2**	**12.4**	**1.8**	**15**
Adjusted EBITDA(1)(2)	**15.1**	**12.6**	**2.5**	**20**
Operating earnings	**11.8**	**9.8**	**2.0**	**20**
Net earnings	**9.3**	**8.4**	**0.9**	**11**
per share (basic)(3)	0.19	0.17	0.02	
per share (diluted)(3)	0.18	0.17	0.01	
Funds provided from operations(1)	**13.1**	**11.2**	**1.9**	**17**
per share (basic)(3)	0.26	0.23	0.03	
per share (diluted)(3)	0.26	0.22	0.04	
Dividends	**2.0**	**1.6**	**0.4**	
Capital expenditures	**1.5**	**5.9**	**(4.4)**	
Working Capital (1)	**53.3**	**40.9**	**12.4**	
Total assets	**149.3**	**131.4**	**17.9**	
Total non-current financial liabilities	**6.7**	**13.7**	**(7.0)**	
Net cash, end of period (1)	**36.2**	**9.6**	**26.6**	
Shares outstanding - end of period(3)	**50.1**	**49.8**		

(1) Readers are cautioned that EBITDA, Adjusted EBITDA, Funds provided from operations, net cash and working capital do not have standardized meanings prescribed by IFRS – see "Key Financial Measures".
(2) Adjusted EBITDA is calculated as EBITDA plus adjustments for share-based compensation and foreign exchange gains or losses.
(3) 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 net earnings per share amounts is determined differently as explained in the Financial Statements.

Key Financial Measures

This MD&A contains references to certain financial measures that do not have a standardized meaning prescribed by IFRS and may not be comparable to the same or similar measures used by 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 earnings and comprehensive income, EBITDA (earnings before interest, taxes and depreciation and amortization) is a useful supplemental measure of the Corporation'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, gains or losses 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 consolidated net earnings to EBITDA and Adjusted EBITDA for the three months ended March 31:

($ millions)	2014	2013
Net earnings for the period	9.3	8.4
Add:		
Interest and finance expense	0.2	0.2
Income taxes	1.7	1.2
Amortization	3.0	2.6
EBITDA	**14.2**	**12.4**
Add:		
Share-based compensation	0.3	0.2
Foreign exchange loss	0.6	-
Adjusted EBITDA	**15.1**	**12.6**

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 to analyze overall operating performance. Oilfield services operating margin % is calculated as oilfield services operating margin divided by revenue.

Percent of Revenue
Certain figures are stated as a percent of revenue and are used by management to analyze individual components of expenses to evaluate the Corporation's performance from prior periods and to compare its performance to other companies.

Funds Provided from Operations
Management believes that, in addition to net cash generated from operating activities as reported in the consolidated statements of cash flows, cash flow from operating activities before working capital adjustments (funds provided from operations) 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.

This measure is used by management to analyze funds provided from operating activities prior to the net effect of changes in items of non-cash working capital, and is not intended to represent net cash generated from operating activities as calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of net cash generated from operating activities to funds provided from operations for the three months ended March 31:

($ millions)	2014	2013
Net cash generated from operating activities	**11.2**	**2.8**
Add:		
Net changes in items of non-cash working capital	1.9	8.4
Funds provided from operations	**13.1**	**11.2**

Debt-to-capitalization ratio
Debt-to-capitalization ratio is used by management to assess its financial structure and determine how the Corporation is financing its activities. The amount is calculated as total debt divided by the sum of total debt and shareholders' equity.

Working capital
Working capital is used by management as another measure to analyze the operating liquidity available to the Corporation. It is defined as current assets less current liabilities.

Net cash
Net cash is used by management to analyze the amount by which cash and cash equivalents exceed the total amount of debt. The amount, if any, is calculated as cash and cash equivalents less total gross debt.

The following tables provide a quantitative reconciliation of cash and cash equivalents to net cash as at March 31:

($ millions)	2014	2013
Cash and cash equivalents	42.9	23.4
Less:		
Long-term debt	(6.7)	(13.8)
Net cash	**36.2**	**9.6**

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

Overview

The Corporation continues to generate strong cash flows from its operations. For the three months ended March 31, 2014, High Arctic generated $13.1 million (2013- $11.2 million) of funds provided from operations. At March 31, 2014, the Corporation had $36.2 million of net cash on hand (December 31, 2013 - $26.9 million) and working capital of $53.3 million (December 31, 2013 - $41.9 million).

Revenues for the first quarter of 2014 decreased slightly to $44.5 million compared to $44.8 million for the Q1 2013. The slight decrease for the period was mainly due to declining revenues from Rig 102 which were not fully offset by increased rental revenues in PNG and the benefit of a strong U.S. dollar. First quarter revenue for Canada stayed relatively unchanged, increasing to $15.0 million for Q1 2014 from $14.9 million earned in Q1 2013.

Operating margins were considerably higher in the first quarter of 2014 compared to the same period of 2013, mainly due to higher margins realized on rentals of equipment as compared to those of Rig 102's drilling operations which are more labour intensive.

In response to its continued strong financial results, High Arctic increased its monthly dividend to $0.015 per share in March, 2014, a 20% increase from the previous monthly dividends paid. At this rate, the annual dividends could amount to approximately $9.0 million, which represents an annualized rate of 24% of funds provided from operations during the trailing twelve months ended March 31, 2014.

Adjusted EBITDA increased to $15.1 million for the three months ended March 31, 2014, a 20% increase from $12.6 million earned for the first quarter of 2013. The increase was mainly due to reduced oilfield services expenses in PNG.

Operating Results for the three months ended March 31, 2014 and 2013

Consolidated oilfield services operating margins continued to be strong and increased to 41% of revenue for the first three months of 2014 as compared to 34% for the same period in 2013. The percentage increased as a result of the higher margins associated with the PNG rental assets and the Canadian snubbing operation which experiences higher margins in the first quarter each year when personnel and equipment are utilized at a higher rate. An overall increase of $2.9 million was realised in the operating margin for Q1 2014 over Q1 2013.

	Three Months Ended March 31			
($ millions)	**2014**	**2013**	**Change**	**%**
Revenue				
Papua New Guinea	29.5	29.9	(0.4)	(1)
Canada	15.0	14.9	0.1	-
Total	**44.5**	**44.8**	**(0.3)**	**(1)**
Oilfield services expense	**26.4**	**29.6**	**(3.2)**	**(11)**
Percent of revenue	59%	66%		
Oilfield services operating margin	**18.1**	**15.2**	**2.9**	**19**
Percent of revenue	41%	34%		

Operations in PNG

Revenue for the PNG operations for the three months ended March 31, 2014 decreased slightly to $29.5 million (2013 - $29.9 million) as a result of Rig 102 being warm stacked for all of 2014 to date. Higher matting and equipment rental revenues (2014 - $7.5 million; 2013 - $5.7 million) due to rentals placed in service in 2013 and a stronger U.S. dollar partially offset the reduced rig revenues.

High Arctic is currently managing and operating two heli-portable rigs (Rigs 103 and 104) owned by our main customer in PNG. Revenue includes amounts related to the recovery of lease related costs. An equivalent lease cost is included under oilfield services expense. The lease amounts are significant with revenues and expenses each reflecting $8.7 million for 2014 compared to $8.5 million for the first quarter of 2013. Various drilling support equipment and Dura-Base® mats are under rental contracts with several customers in PNG.

Rig 104 had resumed full time operations in mid-December, 2013 with our largest PNG customer and is currently expected to operate continuously throughout 2014. The Corporation announced in December, 2013 that Rig 103 has been contracted to another customer for the drilling of two wells. The rig and associated equipment were transported to the drilling site and the first well was spudded late in March, 2014. The firm two well commitment, including mobilisation, is expected to take approximately one year to complete on the current timeline with an option to extend for up to a further two wells. The equipment included in the agreement comprises Rig 103 and the leap frog package, a 93 man main camp, a 32 man leap frog camp and High Arctic owned drilling support equipment and matting. As a result, both drilling rigs were active for all but thirteen days of the first quarter of 2014. In 2013, both rigs were active throughout the first quarter.

Rig 102 was active for the first ten months of 2013 but has been stacked at a much lower rate since November and will go off contract on May 14, 2014.

Revenue from PNG's matting and equipment rental business continues to show strong year over year growth. Approximately $11.0 million was invested in the expansion of the PNG equipment rental business in both 2011 and 2012 and an additional $10.0 million was similarly invested in 2013. PNG's rental fleet consists of Dura-Base® mats, of which High Arctic exited March, 2014 with approximately 9,850 mats under contract, a heli-portable camp, and various trucks, cranes and other oilfield equipment.

Operations in Canada

Revenue for the Canadian operations increased slightly to $15.0 million (2013 - $14.9) for the first three months of the year. Total equipment utilization for the first quarter of 2014 was 56% compared to 57% for the same period in 2013. 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 Corporation's largest business line in Canada is its snubbing services which accounted for revenue of $10.7 million in 2014 (2013 - $10.4 million). Utilization rates for the snubbing units for the three months ended March 31 were 54% for 2014 as compared to 48% for 2013. Although High Arctic has increased its customer base, average job times decreased during the first quarter of 2014 and in turn have reduced the average revenues earned per project.

The second largest Canadian product line is nitrogen services which are often supplied in conjunction with snubbing activities. Nitrogen revenue was $3.5 million for Q1 2014 compared to $3.8 million in Q1 2013. The drop in revenue was attributable to competitive pricing pressures associated with the reduced industry activity levels and decreased utilization for nitrogen services for Q1 2014 of 76% compared to 103% in Q1 2013.

Oilfield Services Expense and Oilfield Services Operating Margin

	Three Months Ended March 31			
($ millions)	**2014**	**2013**	**Change**	**%**
Oilfield services expense	**26.4**	**29.6**	**(3.2)**	**(11)**
Percent of revenue	59%	66%		
Oilfield services operating margin	**18.1**	**15.2**	**2.9**	**19**
Percent of revenue	41%	34%		

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 Corporation 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 fell to 59% in Q1 2014 from 66% for Q1 2013. Operating margins as a percentage of revenue were higher than usual in 2014 for a number of reasons. In addition to the strong operating results in both PNG and Canada, a higher percentage of the revenue was earned from the higher margin equipment and matting rentals which have much lower operating costs than drilling or completion operations. In addition, Rig 102 was on a stacked rate and incurred very little expenses.

Oilfield services expenses by nature

	Three Months Ended March 31	
($ millions)	2014	2013
Personnel costs and personnel related costs	11.7	14.0
Drilling rig and other rental costs	8.9	8.6
Material and supplies cost	3.1	4.1
Equipment operating and maintenance costs	2.5	2.6
Other	0.2	0.3
	26.4	29.6

Personnel and related costs have decreased due to the release of the Rig 102 crew. Management continues to focus on controlling expenses, although margins tend to drop with activity as fixed costs cannot be easily reduced.

General and Administration

	Three Months Ended March 31		
($ millions)	2014	2013	Change
General and Administration	**3.0**	**2.6**	**0.4**
Percent of revenue	7%	6%	

General and administration expenses (G&A) for the three months ended March 31, 2014 increased over Q1 2013 as a result of staffing increases and other outlays made to support both current and expected increased activity in the PNG operations.

Amortization

	Three Months Ended March 31		
($ millions)	2014	2013	Change
Amortization	**3.0**	**2.6**	**0.4**
Percent of revenue	7%	6%	

Amortization increased for 2014 due to expenditures on property, plant and equipment made by High Arctic that were placed in service in 2013.

Share-based Compensation

	Three Months Ended March 31		
($ millions)	2014	2013	Change
Share-based compensation	**0.3**	**0.2**	**0.1**
Percent of revenue	<1%	<1%	

The increase in share-based compensation expense to $0.3 million for the three months ended March 31, 2014 is attributable to the graded vesting formula used to amortize the calculated benefit amount over the vesting period which weights a higher portion of the benefit to the first year of each grant.

Foreign Exchange Loss

	Three Months Ended March 31		
($ millions)	2014	2013	Change
Foreign exchange loss	**0.6**	**-**	**0.6**
Percent of revenue	1%	-	

The Corporation has exposure to U.S. dollar revenues and expenses, primarily through its operations in PNG, 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 Corporation, being primarily the U.S. dollar based operations in PNG, is translated into Canadian dollars and resulting changes are recognised 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 recognised in the statement of earnings and comprehensive income 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. In the first quarter of 2014, the Canadian dollar lost approximately 4% of its value against the U.S. dollar which resulted in a foreign exchange loss recognized in Q1 2014, though operating results were favourably impacted by the strong US$.

Interest and Finance Expense

	Three Months Ended March 31		
($ millions)	2014	2013	Change
Interest and finance expense	**0.2**	**0.2**	**-**
Percent of revenue	<1%	<1%	

The principal amount of the senior debt was $6.7 million at March 31, 2014 compared to $13.8 million at March 31, 2013. High Arctic repaid $7.0 million of its long term debt in 2013. The interest rate applicable to the senior debt is based on the prime rate plus a spread. (See Long Term Debt). Interest expense decreased for the first quarter of 2014 as compared to the same period in 2013 but was offset by an increase in the recognition of previously deferred financing expenses.

Income Taxes

	Three Months Ended March 31		
($ millions)	2014	2013	Change
Current income tax expense	**1.7**	**1.2**	**0.5**
Percent of revenue	4%	3%	

The current income tax expense relates to current taxes payable on services provided in PNG and increased primarily due to the withholding taxes associated with the rental income.

Earnings retained by subsidiaries that may be subject to dividend withholding taxes in the country of origin upon repatriation amounted to $58.0 million as at March 31, 2014 (2013 - $53.4 million). The average dividend withholding rate is estimated to be 17%. No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings because the Corporation controls the relevant entities and has no committed plans to repatriate the earnings in the foreseeable future.

High Arctic is not currently taxable in Canada as a result of significant available tax pools. The Corporation 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. High Arctic has recognised a deferred tax asset of $5.0 million as a result of determining that sufficient certainty exists to support recognising $20 million of its existing tax pools based on estimated future taxable profits. The Corporation does not expect to be taxable in Canada for the foreseeable future as a result of its available tax pools and believes that future taxable income projections continue to support the deferred tax asset recognised.

At each reporting period, the Corporation assesses its ability to utilize the deductible temporary differences based on its history of profitability, the current industry activity in Canada and the expectation of future taxable profitability. In 2013, the Corporation recognised $1.6 million of Canadian timing differences based on its taxable income produced in the year and expects to recognise approximately $1.5 million in 2014. The deductible temporary differences for which no benefit has been booked that relate to the available Canadian tax pools are estimated as follows:

	March 31, 2014
Property and equipment	2.3
Non- capital losses	73.3
Capital losses	5.4
Financing costs	3.1
Total	**84.1**

Outstanding Share Data

Common Shares
The Corporation's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares. As at March 31, 2014, there were 50,061,792 issued and outstanding common shares. Since then 180,900 options to purchase shares have been exercised and as of the date of this MD&A, there were 50,242,692 issued and outstanding common shares. Both numbers include 32,000 shares held in the Executive and Director Share Incentive Plan (*see Note 9 of the Financial Statements*) that had not yet vested as of March 31, 2014 and which may be cancelled under certain circumstances related to a three year vesting period.

Normal Course Issuer Bid
On May 13, 2013, 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 "2013 Bid"). High Arctic may purchase up to 2,492,716 common shares for cancellation subject to a daily purchase limit of 11,634 common shares. The 2013 Bid commenced on May 28, 2013 and will terminate on May 27, 2014. A total of 105,470 common shares were purchased from the commencement of the 2013 Bid to December 31, 2013 and cancelled at a cost of $0.2 million. As of the date of this MD&A, no common shares have been purchased pursuant to the Bid in 2014.

Options
As at March 31, 2014, there were 2,443,060 options outstanding to acquire common shares of the Corporation at an average exercise price of $2.34 per share. Since then, 180,900 options have been exercised at an average price of $1.13 per share, 110,000 options have been granted at a price of $4.92 per share resulting in 2,372,160 options outstanding at an average exercise price of $2.55 per share as of the date of this MD&A.

Market Capitalization
The Corporation's common shares trade on the Toronto Stock Exchange under the symbol HWO. The closing price of the shares on May 13, 2014 was $5.42 per share. Based upon the issued common shares on that date of 50,242,692, the Corporation has an approximate market capitalization of $272.3 million.

Liquidity and Capital Resources

Selected Capitalization Data:

($ millions except financial ratios)	March 31, 2014	December 31, 2013	Change
Current assets(1)	72.5	60.0	12.5
Current liabilities(2)	19.2	18.1	1.1
Working capital(3)	53.3	41.9	11.4
Working capital ratio(4)	3.8:1	3.3:1	-
Total debt	6.7	6.7	-
Total debt-to-capitalization percentage(5)	5.2%	5.7%	(8.8%)
Cash and cash equivalents	42.9	33.7	9.2
Net cash(6)	36.2	27.0	9.2

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

The Corporation 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 Adjusted EBITDA was 0.15 at March 31, 2014 suggesting a capacity for further borrowing to provide the flexibility for growth in the business. The Corporation has a credit facility (see "Credit Facility" below) from which up to $35 million may be drawn on a revolving basis, subject to the applicable borrowing base margin requirements.

The Corporation generated net cash from operating activities of $11.2 million for the three months ended March 31, 2014 (2013 - $2.8 million). The cash balance and available undrawn credit facilities provide adequate liquidity to meet the Corporation's expected operating and capital needs. The Corporation had a cash balance of $42.9 million as at March 31, 2014, which, along with the available undrawn credit facilities, is targeted to meet the capital expenditures anticipated for 2014, The Corporation believes it has sufficient cash to meet its needs for the foreseeable future.

Long-Term Debt

The main components of the Corporation's long-term debt are an available $30 million revolving loan and a $5 million revolving operating loan. The maturity date of both main components is August 31, 2015 and no principal payments are required prior to that date. The long-term debt is secured by all of the assets of High Arctic and by guarantees given by its material foreign subsidiaries.

The long-term debt agreement permits borrowing in Canadian or US dollars and contains an interest rate grid whereby the interest rate applicable to borrowings will vary according to the currency of the borrowings and a prescribed leverage ratio. The Corporation's existing borrowings are all denominated in Canadian dollars and carry an annual interest rate equal to the lender's prime interest rate plus 1.0% and an annual standby fee of 0.35% on any undrawn portion of the debt. The effective interest rate on the long-term debt was 4% for the three months ended March 31, 2014.

The $5 million revolving operating loan facility may be drawn based on 75% of the Corporation's eligible Canadian accounts receivable (85% in the case of investment grade receivables), less certain priority claims, and 90% of eligible foreign accounts receivable insured by the Export Development Corporation or other insurer approved by the lender.

As at March 31, 2014, the Corporation had long-term debt of $6.7 million, leaving $28.3 million of undrawn revolving capacity. The revolving facility does not require principal repayments prior to maturity so the entire amount is classified as long-term at March 31, 2014. The cash and cash equivalents at March 31, 2014 exceeded total debt by $36.2 million.

As of the date of this MD&A, long term debt is $6.7 million. 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 have no prescribed meaning under IFRS.

The **Funded Debt to EBITDA Ratio** 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 any gains or losses from the sale of assets. This ratio must be maintained below 2.50:1. For the rolling four quarters ended March 31, 2014, this ratio was 0.15:1 (2013 – 0.36:1).

The **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 (which is deemed to be $6.0 million per annum) 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 March 31, 2014, this ratio was 4.72:1 (2013 – 4.15:1).

The **Debt to Tangible Net Worth Ratio** is defined as 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. This ratio must be maintained below 2.50:1. At March 31, 2014, this ratio was 0.21:1 (2013 – 0.35:1).

The **Current Ratio** is defined as the ratio of consolidated current assets to consolidated net current liabilities (excluding the current portion of long term debt and other debt, if any). This ratio must be maintained above 1.50:1. At March 31, 2014, this ratio was 3.78:1 (2013 – 3.07:1).

The Corporation remains in compliance with all financial covenants under its long-term debt agreement.

Accounts Receivable

The aging of accounts receivables is as follows:

	March 31, 2014	December 31, 2013
Less than 31 days	17.7	21.0
31 to 60 days	5.8	0.6
61 to 90 days	1.6	0.6
Greater than 90 days	1.0	0.3
Allowance for doubtful accounts	(0.7)	(0.6)
Total	**25.4**	**21.9**
The Corporation's accounts receivable are denominated in the following currencies:		
Canadian dollar	10.3	7.4
United States dollar (2014 – US$13.6; 2013 – US$13.7)	15.1	14.5
Total	**25.4**	**21.9**

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.

Cash Flows

Operating Activities

Funds provided from operations for the three months ended March 31, 2014 were $13.1 million (2013 - $11.2 million). After working capital adjustments, net cash generated from operating activities during Q1 2014 was $11.2 million compared to $2.8 million for Q1 2013. The changes in working capital for the quarter are considered normal, reflecting the differences in activity levels in business between the periods and the quarters that immediately preceded them. The risks associated with the Corporation'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 months ended March 31, 2014, capital expenditures were $1.5 million (2013 – $5.9 million). Most of the capital expenditures in 2014 were directed at continued expansion of PNG's rental equipment fleet, for upgrades to the Canadian Stand-Alone fleet and completion of the construction of a new facility in Grande Prairie, Alberta.

Financing Activities

Dividends

Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. High Arctic increased its monthly dividend to $0.015 per share in March, 2014, a 20% increase from the previous monthly dividends paid. The dividends declared for the first three months of 2014 of $2.0 million ($0.04 per share) (2013 - $1.6 million ($0.0325 per share)) was 15% of funds provided from operations for Q1 2014 (2013 – 57%).

To the date of this MD&A, dividends totalling $0.055 per common share ($2.75 million) have been declared for 2014.

Industry Indicators and Market Trends in Papua New Guinea

The following table provides information for the last eight quarters to assist with the understanding of the PNG oilfield services industry and the effect that commodity prices have on industry activity levels. In addition, the Corporation's international financial results are impacted by fluctuations in the U.S. dollar to Canadian dollar exchange rate. Commodity prices have been higher and more stable in PNG than in Canada, especially for natural gas which are forecasted to remain above US$10/Mmbtu.

	2014	2013				2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oil and natural gas prices **Average for the period**								
Brent Crude (*US $/bbl)*	$108	$109	$110	$103	$112	$110	$109	$109
IPE Britain NBP Natural Gas (US$ /Mmbtu)	$10.03	$11.37	$10.15	$10.00	$10.47	$10.62	$9.00	$8.99
US/Canadian dollar exchange rate	1.10	1.05	1.04	1.03	0.99	1.01	1.01	0.99

The Corporation's PNG activity is based on longer term, U.S. dollar denominated contracts and thus is less affected in the short term by the volatility of oil and gas prices. The U.S./Canadian dollar exchange rate had been fairly stable in 2012 but has seen the US dollar trading at a premium of approximately 3% for 2013 and an additional 5% for the first three months of 2014. The Corporation benefits when the US dollar is valued at a premium to the Canadian dollar. This differential created a positive impact on the PNG financial results reported in Canadian dollars as compared to 2013.

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 coming onstream. 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.

Industry Indicators and Market Trends in Canada

The following table provides information for the last eight quarters to assist with the understanding of the Canadian oilfield services industry and the effect that commodity prices have on industry activity levels.

	2014	2013				2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oil and natural gas prices **Average for the period**								
West Texas Intermediate *(US $ /bbl)*	$99	$97	$106	$94	$94	$88	$92	$93
AECO *(C$ /MMbtu)*	$5.63	$3.52	$2.43	$3.50	$3.08	$3.22	$2.29	$1.90
Other industry indicators								
Well completions in Western Canada(1)	3,135	3,392	2,711	1,683	3,102	3,687	2,835	2,107
Gas well drilling in Western Canada(1)	540	610	289	282	447	489	388	346
Average drilling rig utilization rates(1)	64%	45%	41%	18%	61%	44%	42%	22%

(1) Source: Canadian Association of Oilwell Drilling Contractors (CAODC) or Nickle's Daily Oil Bulletin

Increases or decreases in the price of oil and natural gas can materially impact spending on drilling and well completion activities in Canada. 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.

The trend to more field activity being directed at oil projects continues given the relative strength of oil prices. Natural gas prices improved significantly the first quarter of 2014 due in part to cold weather in North America increasing demand. The AECO reference natural gas price averaged $3.13 per MMbtu in 2013 compared to $5.63 for the first three months of 2014. Although the average price has increased, activity levels are not expected to significantly increase until a higher price is sustained for a significantly longer period of time. During 2013, the Canadian industry continued to experience year over year drops in the number of well completions with the trend most visible in gas wells which represented only 15% of wells drilled in 2012 and 2013 as compared to 43% in 2010 and 28% in 2011. 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 the completion of each well. The Canadian Association of Oilwell Drilling Contractors is forecasting the completion of 10,604 wells for 2014, a slight decrease from the 10,883 wells completed in 2013.

High Arctic's Canadian activity levels are tied more closely to gas drilling activity and the associated well completions. The past weakness in natural gas prices has led Canadian producers to focus 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 liquid natural gas ("LNG") deliveries into Asian markets. When one or more LNG export facilities are approved for construction in British Columbia, we expect drilling activity to increase and with it, demand for the Corporation's completion services.

Quarterly Financial Review

Selected Quarterly Consolidated Financial Information (Three Months Ended)

The following is a summary of selected financial information of the Corporation for the last eight completed quarters:

$ (millions, except per share amounts)	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012
Revenue	**44.5**	**38.7**	**36.3**	**32.9**	**44.8**	**38.6**	**35.8**	**29.6**
Adjusted EBITDA	15.1	12.5	9.8	6.6	12.6	10.0	10.1	5.2
Net earnings	9.3	6.4	7.7	2.1	8.4	5.9	6.5	5.7
per share – basic	0.19	0.13	0.16	0.04	0.17	0.12	0.14	0.12
per share – diluted	0.18	0.13	0.16	0.04	0.17	0.12	0.13	0.12
Funds provided from operations	13.1	10.8	8.2	5.1	11.2	8.7	9.4	3.4

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. 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. The activities in Papua New Guinea are not subject to seasonal variations. Heavy rainfall and dense clouds in the mountains provide operational challenges throughout the year but do not curtail operations totally.

Outlook

The PNG LNG Project announced on April 29th 2014 that it has started production of natural gas for its new liquefied natural gas (LNG) facility ahead of schedule. The longer term outlook for PNG LNG development continues to be favourable as other operators in the country are investing in natural gas exploration and considering options for LNG development.

To address the expected demand for drilling services in PNG, the Corporation announced on April 9, 2014 an agreement to purchase two heli-portable drilling rigs. The rigs are currently being prepared for shipment from Brazil. The acquisition is expected to close during the second quarter once export approval is obtained and the rigs leave Brazil. One of these rigs, Rig 115, has been contracted for a term of two years commencing on spud of the first well. The second rig is being marketed in PNG and should be available for use by the second quarter of 2015. No material contribution to revenues from the rigs is expected until 2015.

Rig 103, working for a new customer in PNG, was mobilized to its first location during the first quarter of 2014 and commenced drilling at the end of March. The firm two well contract is expected to keep Rig 103 active for most of 2014. The equipment included in the agreement includes Rig 103, the Rig 103 leap frog rig, a 93 man main camp and a 32 man leap frog camp and High Arctic owned drilling support equipment and matting. Rig 104 continues to operate drilling wells for our largest customer in PNG and is expected to be operational for all of 2014.

After completing a workover program for our largest customer in PNG, Rig 102 has been stacked since November 2013 and goes off contract on May 14, 2014. The rig will be stored in our customer's yard. Looking forward, there are no anticipated workover opportunities for 2014; however, as it is the only heli-portable workover / snubbing rig in the country, High Arctic will leave the rig in PNG to meet future demand for such services.

During the past two years, High Arctic has significantly grown its equipment rental business in PNG serving an increasing breadth of customers. The existing inventory of rental equipment in PNG appears to be sufficient to meet the current demand. With the introduction of the two new High Arctic rigs and the associated increase in drilling activity in the country, demand for additional rental equipment is expected in 2015. As the capital priority shifts to the acquisition and upgrades of the two new rigs, management expects to delay purchasing much of the $8 million of rental equipment originally included in the $19 million 2014 capital budget.

The Corporation is planning to establish a new office in Brisbane, Australia over the next three months to serve as the primary base for its International focused management. Brisbane provides an efficient regional base to attract the skilled management required to execute our growth plans and to meet our key personnel succession goals. High Arctic is currently in negotiations with its main customer with respect to the support base and any day rate reductions to reflect the sharing of costs between the existing operations and the planned new operations.

In Canada, activity levels in the first quarter of 2014 were similar to those of the prior year. The second quarter is off to a good start and it is expected that our full year 2014 Canadian activity levels will be comparable to those experienced in 2013 for both the snubbing and nitrogen service lines. Although there is speculation in the market that activity in the second half of 2014 may start to accelerate due to improved commodity prices and further investments in BC gas drilling, it is still too early to make such a firm determination.

Customer Concentration

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 outstanding balances. 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 provides services to two significant customers in Papua New Guinea. One customer represents approximately 35% of the Corporation's revenue for the three months ended March 31, 2014 (2013 – 61%) and 28% of its accounts receivable at that date (2013 – 54%). The second customer represents approximately 18% of the Corporation's revenue for the three months ended March 31, 2014 (2013 – nil) and 8% of its accounts receivable at that date (2013 – nil). A third significant customer is a major Canadian exploration and production company which represents approximately 9% of the Corporation's revenue for the three months ended March 31, 2014 (2013 – 9%) and 7% of the Corporation's accounts receivable at that date (2013 – 3%). Management has assessed the three customers as creditworthy and the Corporation has had no history of collection issues with these customers.

Contingent Liabilities and Commitments

Inventory
The Corporation has been supplied 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 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 is party to legal actions arising in the normal course of business. Management believes that the ultimate liability arising from these matters will have no material effect on the Financial Statements.

Property and Equipment
As at March 31, 2014, the Corporation had approximately $3.3 million of planned expenditures for the purchase of capital assets which were not yet recorded because the assets will be delivered later in 2014.

Cancellation of Performance Bond

On March 13, 2014, a performance bond posted by the Corporation in respect of a contract in the Middle East region was returned to the Corporation in full, without payment or draw down. The underlying letters of credit have been cancelled.

Subsequent event

Acquisition of Drilling Rigs

In April, 2014, the Corporation announced that it had signed a new Drilling Services Agreement with a customer for one heli-portable drilling rig in PNG. High Arctic has agreed to provide one drilling rig and a 100 person camp for a firm contract term of two years with an extension option available to the customer for one additional year. The two year term will commence once the rig has been mobilised and is ready to commence drilling operations. In conjunction with the award of this contract, in April, 2014, the Corporation agreed to purchase two heli-portable drilling rigs and associated ancillary equipment. Closing is expected to occur in June, 2014. The total commitment to purchase and deliver the two rigs with upgrades is estimated at US$52 million.

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 Corporation incurs contractual obligations. The following are the contractual maturities of financial liabilities in their future undiscounted amounts as at March 31, 2014:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	15.5	-	-	-	15.5
Dividends payable	0.8				0.8
Long-term debt and related interest	0.3	6.9	-	-	7.2
Total	**16.6**	**6.9**	**-**	**-**	**23.5**

Lease Obligations

The Corporation has entered into long-term premise leases for operating facilities in Canada. These leases are operating leases and the remaining length of the lease terms are up to one and a half 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 March 31, 2014 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	0.4	0.1	-	-	0.5
Total lease commitments	**0.4**	**0.1**	**-**	**-**	**0.5**

Risk Management and Uncertainties

The success of the Corporation is dependent to a great extent on the strength 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 Corporation 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 (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 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 Corporation operates or result in the imposition of taxes on such transfers; and
- regional and international competition.

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

The Corporation is also subject to specific risks.

Financing Risk
The Corporation is exposed to risk associated with access to equity capital and debt financing required for business needs and the risk that necessary capital cannot be acquired on a timely basis, on reasonable terms to the Corporation, 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 Corporation may change and shareholders may suffer dilution to their investment.

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.

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 Corporation is exposed to interest rate risk as its long-term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. For the three months ended March 31, 2014, a 1% nominal change in the interest charged to the Corporation under its credit facility would have changed interest expense by less than $0.1 million (2013 - $0.1 million).

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

The Corporation must file tax returns in the foreign jurisdictions in which it operates. The tax laws and the prevailing assessment practices are subject to interpretation and the foreign authorities may disagree with the filing positions adopted by the Corporation. The impact of any challenges cannot be reliably estimated and may be significant to the financial position or overall operations of the Corporation.

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

Credit Risk

The Corporation'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 Corporation's business, financial condition, results of operations and cash flows. High Arctic generally grants unsecured credit to its customers; however, it evaluates all new customers, as appropriate, and analyzes and reviews the financial health of its current customers on an ongoing basis.

Risk of Foreign Operations

The Corporation operates in international locations, including Papua New Guinea, which displays characteristics of an emerging market. 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. Management is unable to predict the extent or duration of these risks or quantify their potential impact.

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 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 three months ended March 31, 2014, a 1% nominal change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $0.5 million (2013 - $0.3 million) change in other comprehensive income and a $0.4 million (2013 – $0.1 million) change in net earnings for the period 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, particularly with respect to natural gas, which primarily affects the Canadian business. The Corporation mitigates this exposure with its diversification into international operations not dependent on the Canadian oil and gas industry.

Dependence on Suppliers

High Arctic sources supplies and materials from a variety of suppliers throughout the world. Failure of suppliers to deliver supplies and materials in a timely and efficient manner would be detrimental to the Corporation'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 and having access to alternative 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 Corporation'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 Corporation 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 Corporation's ability to generate revenue and earnings.

Other
Additional risk factors relating to the Corporation are also outlined in the most recent Annual Information Form filed on SEDAR at www.sedar.com.

Critical Accounting Estimates and Judgments

Details of the critical accounting estimates and judgments used by management in the preparation of the Corporation's Financial Statements may be found in the notes to the audited consolidated financial statements of the Corporation for the year ended December 31, 2013.

Changes in Accounting Policies

New standards and amendments effective for the first time

There are no IFRS or IFRIC interpretations that were effective for the first time for the fiscal year beginning on or after January 1, 2014 that had a material impact on the Corporation.

In May 2013, the IASB released an amendment to IAS 36, Impairment of Assets. This amendment requires entities to disclose how the recoverable amount of a cash generating unit has been measured when an impairment loss has been recognized or reversed. The amendment was effective January 1, 2014 and had no material effect on the Corporation's Financial Statements.

IFRIC 21, Levies, was developed by the IFRS Interpretations Committee ("IFRIC") and issued in May 2013. IFRIC 21 clarifies that an entity should recognize a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. IFRIC 21 was required to be adopted retrospectively for fiscal years beginning January 1, 2014 and its adoption has not had a material impact on accounting for property and other similar taxes, which do not meet the definition of an income tax in IAS 12, Income Taxes.

Future Accounting Policies

There are no IFRS or IFRIC interpretations that are effective for the first time for fiscal periods beginning on or after April 1, 2014 that would be expected to have a material impact on the Corporation.

Disclosure Controls and Procedure

The Chief Executive Officer and the Chief Financial Officer have designed, or have caused to be designed under their supervision, the Corporation's 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 ("DC&P") are designed to provide reasonable assurance that material information required to be disclosed in its annual filings, interim filings or other reports filed by it under securities legislation is accurate and complete and filed within the time periods required and that information required to be disclosed is accumulated and communicated to the appropriate members of management to allow timely decisions regarding required disclosure.

The Chief Executive Officer and the Chief Financial Officer oversee this design and evaluation process and have concluded, based on their evaluation as at March 31, 2014, that the design and operation of the Corporation's DC&P, as defined by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, were effective. The Chief Executive Officer and the Chief Financial Officer have individually signed certifications to this effect.

High Arctic will continue to evaluate the DC&P and will make modifications when necessary. There were no changes in the Corporation's DC&P during the three months ended March 31, 2014 which have materially affected, or are reasonably likely to materially affect High Arctic's DC&P.

Internal Controls Over Financial Reporting

Internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109, means a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (ii) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial reports.

Management is responsible for designing and evaluating the effectiveness of ICFR, under the supervision of the CEO and CFO. No changes were made to ICFR during the three months ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, ICFR. The CEO and CFO of the Corporation directed the assessment of the design and operating effectiveness of the Corporation's internal controls over financial reporting as at March 31, 2014, and, based on that assessment, have concluded that ICFR was effective as at March 31, 2014.

It should be noted that a control system, including the Corporation's DC&P and ICFR, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met, and it should not be expected that the Corporation's DC&P and ICFR will prevent all errors or fraud.

Additional Information

Additional information on the Corporation, including the most recent Annual Information Form filed, may be found on SEDAR at www.sedar.com.