High Arctic Energy Services Inc.
Management's Discussion and Analysis
For the Three and Nine Months Ended September 30, 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 and nine months ended September 30, 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 November 12, 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 drilling and specialized well completion services, equipment rentals and other services to the oil and gas industry.

High Arctic's largest operation is in Papua New Guinea where it provides drilling and specialized well completion services and supplies rig matting, camps and drilling support equipment on a rental basis. The Canadian operation provides 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

- Revenues increased by 14% for the third quarter of 2014 to $41.3 million (Q3 2013 - $36.3 million).
- Adjusted EBITDA(1)(2) was $9.8 million for Q3 2014 (Q3 2013 - $9.8 million). For the nine months ended September 30, 2014, adjusted EBITDA increased by 24% to $36.0 million (Q3 2013 - $29.0 million).
- On July 28, 2014, High Arctic completed the acquisition of two heli-portable drilling rigs. The Corporation has signed a drilling services contract with a large oil and gas operator in PNG to utilize one of the rigs. The two year term commences with the spud of a first well, which is expected to occur late in Q1 2015.
- On July 2, 2014, High Arctic welcomed a new CEO and a new President, International on October 1, 2014; both individuals bring significant international drilling experience to High Arctic.
- High Arctic paid dividends of $2.4 million during Q3 2014. The Corporation continues to maintain a strong balance sheet and has a trailing annual dividend payout ratio of 21%.

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 September 30				Nine Months Ended September 30			
$ millions (except per share amounts)	2014	2013	Change	%	2014	2013	Change	%
Revenue	**41.3**	**36.3**	**5.0**	**14**	**125.6**	**114.0**	**11.6**	**10**
EBITDA(1)	**8.3**	**12.4**	**(4.1)**	**(33)**	**34.0**	**31.1**	**2.9**	**9**
Adjusted EBITDA(1)	**9.8**	**9.8**	**-**	**-**	**36.0**	**29.0**	**7.0**	**24**
Operating earnings	**6.4**	**9.4**	**(3.0)**	**(32)**	**25.8**	**22.7**	**3.1**	**14**
Net earnings	**3.7**	**7.7**	**(4.0)**	**(52)**	**19.7**	**18.2**	**1.5**	**8**
per share (basic)(2)	0.07	0.16	(0.09)		0.39	0.38	0.01	
per share (diluted)(2)	0.07	0.16	(0.09)		0.39	0.37	0.02	
Funds provided from operations(1)	**7.6**	**8.2**	**(0.6)**	**(8)**	**30.5**	**24.5**	**6.0**	**24**
per share (basic)(2)	0.14	0.17	(0.03)		0.61	0.51	0.10	
per share (diluted)(2)	0.14	0.17	(0.03)		0.60	0.50	0.10	
Dividends	**2.4**	**1.9**	**0.5**		**6.7**	**5.3**	**1.4**	
Capital expenditures	**36.8**	**6.9**	**29.9**		**41.0**	**17.7**	**23.3**	
Working Capital					**44.8**	**35.7**	**9.1**	**25**
Total assets					**178.8**	**127.9**	**50.9**	**40**
Total non-current financial liabilities					**-**	**6.7**	**(6.7)**	
Net cash, end of period (1)					**46.0**	**22.0**	**24.0**	**109**
Shares outstanding - end of period(2)					**55.8**	**49.9**	**5.9**	

(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, loss on sale of property and equipment, excess of insurance proceeds over costs 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, excess of insurance proceeds over costs 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 and nine months ended September 30:

($ millions)	Three months ended Sept. 30, 2014	Three months ended Sept. 30, 2013	Nine months ended Sept. 30, 2014	Nine months ended Sept. 30, 2013
Net earnings for the period	**3.7**	**7.7**	**19.7**	**18.2**
Add:				
Interest and finance expense	0.1	0.2	0.4	0.6
Income taxes	1.3	1.5	4.5	3.9
Amortization	3.2	3.0	9.4	8.4
EBITDA	**8.3**	**12.4**	**34.0**	**31.1**
Add:				
Share-based compensation	0.4	0.1	1.0	0.4
Loss (gain) on sale of assets	(0.2)	0.3	(0.2)	0.3
Excess of insurance proceeds over costs	-	(2.7)	-	(2.7)
Foreign exchange loss (gain)	1.3	(0.3)	1.2	(0.1)
Adjusted EBITDA	**9.8**	**9.8**	**36.0**	**29.0**

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 and nine months ended September 30:

($ millions)	Three Months ended Sept. 30, 2014	Three Months ended Sept. 30, 2013	Nine Months ended Sept. 30, 2014	Nine Months ended Sept. 30, 2013
Net cash generated from operating activities	**10.9**	**8.8**	**39.7**	**26.9**
Less:				
Net changes in items of non-cash working capital	(3.3)	(0.6)	(9.2)	(2.4)
Funds provided from operations	**7.6**	**8.2**	**30.5**	**24.5**

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 long-term debt.

The following tables provide a quantitative reconciliation of cash and cash equivalents to net cash as at September 30:

($ millions)	2014	2013
Cash and cash equivalents	46.0	28.7
Less:		
Long-term debt	-	(6.8)
Net cash	**46.0**	**21.9**

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

High Arctic completed two major transactions during the third quarter of 2014. The Corporation closed a public offering on July 28th, issuing 5,051,000 common shares for net proceeds of $23.6 million. The proceeds were used, along with cash on hand, to acquire two heli-portable drilling rigs at a cost of US$29 million ($31.6 million). One of the rigs is currently being upgraded and will be transported to PNG where it will operate under a two year drilling services agreement which is expected to commence late in the first quarter of 2015.

The Corporation continues to generate strong cash flows from its operations. For the nine months ended September 30, 2014, High Arctic generated $30.5 million (2013 - $24.5 million) of funds provided from operations. At September 30, 2014, the Corporation had $46.0 million of net cash on hand (September 30, 2013 - $28.7 million) and working capital of $44.8 million (September 30, 2013 - $35.7 million).

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. Dividends paid in the trailing twelve months ended September 30, 2014 totalled $8.6 million which represents an annualized rate of 21% of funds provided from operations. The Corporation anticipates that future earnings will support continued dividend payments.

Revenues for the first nine months of 2014 increased by 10% to $125.6 million compared to $114.0 million for the same period in 2013. For the three months ended September 30, 2014, revenues were $41.3 million; a 14% increase over the revenues generated during Q3 2013. Revenues increased from both the PNG and Canadian operations. The increases in PNG revenue arose from higher drilling rig utilization, increased equipment and matting rentals and the benefit of a stronger U.S. dollar. Canadian activity levels were higher in the first nine months of 2014 than the same period in 2013 for both snubbing and nitrogen services and for its rental revenues.

Consolidated oilfield services operating margins continued to be strong and increased to 36% of revenue for the first nine months of 2014 as compared to 32% for the same period in 2013 as a result of having increased revenues derived from equipment and matting rental income in 2014. However, a higher percentage of the revenues were derived from drilling rig lease income for the three months ended September 30, 2014 ($9.4 million or 30%) as compared to the same period in 2013 ($6.9 million or 25%). Such drilling rig lease charges are fully offset by lease expenses and generate no margin. This resulted in a decrease in the oilfield services operating margin percentage for the three months ended September 30, 2014 as compared to the same period in 2013. The Canadian operations experienced higher margins for both the three months and nine months ended September 2014 with personnel and equipment utilized at a higher rate than during the same periods in 2013. An overall increase of $8.5 million was realised in the operating margin for the first nine months of 2014 over the same period in 2013.

Increased revenues resulted in Adjusted EBITDA of $36.0 million for the nine months ended September 30, 2014; a 24% increase from $29.0 million earned for the first nine months of 2013.

	Three Months Ended September 30				**Nine Months Ended September 30**			
($ millions)	**2014**	**2013**	**Change**	**%**	**2014**	**2013**	**Change**	**%**
Revenue								
Papua New Guinea	31.4	27.7	3.7	13	92.7	85.9	6.8	8
Canada	9.9	8.6	1.3	15	32.9	28.1	4.8	17
Total	**41.3**	**36.3**	**5.0**	**14**	**125.6**	**114.0**	**11.6**	**10**
Oilfield services expense	**28.4**	**24.2**	**4.2**	**17**	**80.8**	**77.7**	**3.1**	**4**
Percent of revenue	69%	67%			64%	68%		
Oilfield services operating margin	**12.9**	**12.1**	**0.8**	**7**	**44.8**	**36.3**	**8.5**	**23**
Percent of revenue	31%	33%			36%	32%		

Operations in PNG

Revenue for the PNG operations for the nine months ended September 30, 2014 increased by 8% to $92.7 million (2013 - $85.9 million). Higher matting and equipment rental revenues in 2014 (2014 - $21.3 million; 2013 - $18.4 million), due to rentals placed in service in the second half of 2013 and a stronger U.S. dollar, offset the reduction of Rig 102 revenues. Rig

102 was fully operational throughout the first nine months of 2013 but was stacked under contract from November, 2013 until May 14, 2014 at which time it went off contract.

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 in oilfield services expense. The lease amounts are significant with revenues and expenses each reflecting $26.8 million for 2014 compared to $22.2 million for the first nine months of 2013.

Rig 104 and the 104 leap frog rig resumed full time operations in mid-December, 2013 and are currently expected to operate continuously throughout the remainder of their contracts until June, 2016. Rig 103 is presently working on a contracted two well commitment and also has a potential one well option. The first well was spudded in March, 2014 and is currently being completed. The second well is expected to commence prior to the end of November. 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 nine months of 2014. In 2013, both rigs were active throughout the first four months of the year and then commenced operating on a shared leap frog basis with one drilling rig crew.

Rig 102 was active for the first ten months of 2013 but was stacked at a much lower rate since November, 2013 and went off contract on May 14, 2014. Rig 102 is the only heli-portable workover rig in PNG and it is expected that its services will be needed in the future due to the increased number of production wells in the country that will require workover type operations.

Revenue from PNG's matting and equipment rental business experienced strong year to date growth although some rental equipment came off contract in Q3 2014. PNG's rental fleet includes 9,838 Dura-Base® mats, of which High Arctic exited September, 2014 with approximately 8,252 mats under contract. The Corporation also generates revenues from a heli-portable camp, and various trucks, cranes and other oilfield equipment. The heli-portable camp owned by High Arctic has been stacked at a lower rate under contract since mid-August.

Operations in Canada

Revenue for the Canadian operations increased by 17% to $32.9 million (2013 - $28.1) for the first nine months of the year. Total equipment utilization for the nine months ended September 30, 2014 was 44% compared to 36% 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 $22.6 million for the first nine months of 2014 (2013 - $20.2 million). Utilization rates for the snubbing units for the nine months ended September 30 were 34% for 2014 as compared to 29% for 2013. Although High Arctic has increased its customer base, average job times decreased during the first nine months 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 $8.6 million for the nine months ended September 30, 2014 compared to $6.6 million for the same period in 2013. The increase in revenue was attributable to increased utilization for nitrogen services during the nine months ended September 30, 2014 of 60% (2013 – 50%) which was partially offset by competitive pricing pressures.

Oilfield Services Expense and Oilfield Services Operating Margin

	Three Months Ended September 30				Nine Months Ended September 30			
($ millions)	2014	2013	Change	%	2014	2013	Change	%
Oilfield services expense	**28.4**	**24.2**	**4.2**	**17**	**80.8**	**77.7**	**3.1**	**4**
Percent of revenue	69%	67%			64%	68%		
Oilfield services operating margin	**12.9**	**12.1**	**0.8**	**7**	**44.8**	**36.3**	**8.5**	**23**
Percent of revenue	31%	33%			36%	32%		

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 64% for the first nine months of 2014 from 68% for the same period in 2013. Operating margins as a percentage of revenue were higher for the nine month period in 2014 than in 2013. 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. Also, Rig 102 was on a stacked rate until May 14, 2014 and incurred few expenses.

For the three months ended September 30, oilfield services expenses were higher as a percentage of revenue in 2014 than in 2013. A higher percentage of revenues were derived from drilling rig lease income for the three months ended September 30, 2014 ($9.4 million or 30%) as compared to the same period in 2013 ($6.9 million or 25%). Such drilling rig lease charges are fully offset by lease expenses and generate no margin. This resulted in a decrease in the oilfield services operating margin percentage for the three months ended September 30, 2014 as compared to the same period in 2013.

Oilfield services expenses by nature

	Three Months Ended September 30		Nine Months Ended September 30	
($ millions)	2014	2013	2014	2013
Personnel costs and personnel related costs	11.3	10.1	33.2	34.2
Drilling rig and other rental costs	9.7	7.1	27.6	23.5
Material and supplies cost	5.0	4.6	12.8	12.5
Equipment operating and maintenance costs	2.1	2.1	6.5	6.6
Other	0.3	0.3	0.7	0.9
Total	**28.4**	**24.2**	**80.8**	**77.7**

For both the three and nine month periods ended September 30, an increase in oilfield services expenses in 2014 can be partially explained by the increase in the average US dollar exchange rate to 1.089 for the three month period (2013 – 1.038) and 1.094 for the first nine months of 2014 (2013 – 1.023). Personnel costs were higher for the nine month period in 2013 due to Rig 102 which ceased incurring operating costs in December, 2013. During 2014, drilling rig lease expenses were higher as both Rig 103 and 104 were fully operating as compared to operating on a leap frog basis with one drilling crew for five of the first nine months in 2013.

Although margins tend to drop with reductions in activity as fixed costs cannot be easily reduced, management attempts to maintain a variable cost structure where possible.

General and Administration

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	2014	2013	Change	2014	2013	Change
General and Administration	**3.1**	**2.3**	**0.8**	**8.8**	**7.3**	**1.5**
Percent of revenue	7.5%	6.3%		7.0%	6.4%	

General and administration expenses (G&A) for the three and nine months ended September 30, 2014 increased over the same periods in 2013 as a result of staffing increases and other outlays made to support both current and expected increased activity in the PNG operations and the initiation of a regional office in Brisbane, Australia.

Amortization

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	2014	2013	Change	2014	2013	Change
Amortization	**3.2**	**3.0**	**0.2**	**9.4**	**8.4**	**1.0**
Percent of revenue	7.7%	8.3%		7.5%	7.4%	

Amortization increased for both the three and nine months ended September 30, 2014 over the same periods for 2013 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 September 30			Nine Months Ended September 30		
($ millions)	2014	2013	Change	2014	2013	Change
Share-based compensation	**0.4**	**0.1**	**0.3**	**1.0**	**0.4**	**0.6**
Percent of revenue	<1%	<1%		<1%	<1%	

The increase in share-based compensation expense to $1.0 million for the nine months ended September 30, 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 and to the increased number of share options outstanding throughout the period as compared to 2013.

Foreign Exchange Gain (Loss) in Net Earnings

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	2014	2013	Change	2014	2013	Change
Foreign exchange gain (loss)	**(1.3)**	**0.3**	**(1.6)**	**(1.2)**	**0.1**	**(1.3)**
Percent of revenue	3%	1%		1%	<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. 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 as a foreign exchange gain or loss in the statement of earnings while the offsetting amount on the intercompany balances recorded for the foreign subsidiary is recorded as a cumulative translation adjustment. Gains and losses on intercompany balances are non-cash items. In the first nine months of 2014, the Canadian dollar lost an average of approximately 6% of its value against the U.S. dollar as compared to 3% for the first nine months of 2013 and operating results were favourably impacted by the stronger US dollar. Included in the foreign exchange losses in 2014 are losses realized on transactions made through the Corporation's U.S. dollar account in Canada of $0.6 million and unrealized losses on intercompany balances of $0.6 million.

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 as follows:

Foreign Currency Translation Gains (Losses) in Other Comprehensive Income

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	2014	2013	Change	2014	2013	Change
Foreign currency exchange gains (losses) for foreign operations	**4.9**	**(1.6)**	**6.5**	**4.9**	**2.1**	**2.8**

The U.S. dollar exchange rate at the beginning of 2014 was the same as at the beginning of the third quarter of 2014 resulting in the same effect on other comprehensive income for both the three and nine month periods ended September 30, 2014.

For the nine months ended September 30, 2014, the cash effect of foreign exchange was a gain of $1.1 million (2013 - $0.8 million).

Interest and Finance Expense

The principal amount of the senior debt was $nil at September 30, 2014 compared to $6.7 million at September 30, 2013. High Arctic repaid $6.7 million of its long term debt in August, 2014 and $7.0 million during the first nine months of 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 slightly for the first three quarters of 2014 as compared to the same period in 2013 as a result of the reduced debt.

Income Taxes

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	2014	2013	Change	2014	2013	Change
Current income tax expense	**1.3**	**1.7**	**(0.4)**	**4.5**	**4.0**	**0.5**
Percent of revenue	3.1%	4.7%		3.6%	3.5%	
Deferred income tax expense	**-**	**0.2**	**(0.2)**	**-**	**0.1**	**(0.1)**

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 $60.3 million as at September 30, 2014 (2013 - $56.6 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 $2.0 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:

	September 30, 2014
Property and equipment	2.3
Non- capital losses	72.2
Capital losses	5.4
Financing costs	3.1
Total	**83.0**

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 September 30, 2014, there were 55,763,652 issued and outstanding common shares.

On July 28, 2014, the Corporation completed a public offering of 5,051,000 common shares at a price of $4.95 for gross proceeds of $25.0 million. Issuance costs of $1.4 million were incurred and the net proceeds were used, along with existing cash on hand, to purchase two heli-portable drilling rigs.

During the nine months ended September 30, 2014, a total of 562,060 stock options were exercised (year ended December 31, 2013 – 345,740) for shares of the Corporation.

As of the date of this MD&A, there were 55,763,652 issued and outstanding common shares including 123,000 shares held in the Executive and Director Share Incentive Plan that had not yet vested as of September 30, 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"). The 2013 Bid commenced on May 28, 2013 and terminated 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. No common shares have been purchased pursuant to the Bid in 2014.

Options
As at September 30, 2014, there were 2,779,100 options outstanding to acquire common shares of the Corporation at an average exercise price of $3.62 per share. Since then, 3,000 options have been forfeited and no options have been granted or exercised resulting in 2,776,100 options outstanding at an average exercise price of $3.62 per share as of the date of this MD&A.

Share Incentive Plan
Shares granted under the Executive and Director Share Incentive Plan (EDSIP) 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 not 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 with an equivalent share based compensation amount recorded. A share-based compensation amount for the common shares issued under the EDSIP 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.

In August 2014, 105,000 shares were granted under the EDSIP which have a three year vesting period with 34% vesting on August 18, 2015, 33% on August 18, 2016 and 33% on August 18, 2017. Share-based compensation of $5.29 per share will be recognized over the vesting period and a share capital amount of $5.29 per share will be recorded as the related share-based compensation expense is recognized.

Restricted Share Units
On September 1, 2014 the Corporation awarded 40,000 Restricted Share Units ("RSUs") to one officer of the Corporation. Each RSU carries the right to a cash payment based upon the trading price of the common shares when exercised. The RSUs vest equally over a three year period and will be settled in cash when exercised by the holder no earlier than two years after the vesting date. The RSUs must be exercised within six years of the date of grant.

The RSUs are treated as cash-settled share-based compensation and a compensation expense is recognized over the vesting period using fair values with a corresponding increase or decrease in liabilities. The liability is remeasured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as share-based compensation expense in the statement of income. The fair value is determined using the Black-Scholes option pricing model.

As at September 30, 2014, an amount of $0.2 million (before recognizing a reduction for any future forfeitures) remains to be amortized in future periods in respect of the 40,000 RSUs awarded. On October 31, 2014, an additional 40,000 RSUs were granted to another officer.

Market Capitalization

The Corporation's common shares trade on the Toronto Stock Exchange under the symbol HWO. The closing price of the shares on November 11, 2014 was $4.16 per share. Based upon the issued common shares on that date of 55,763,652, the Corporation has an approximate market capitalization of $232.0 million.

Liquidity and Capital Resources

Selected Capitalization Data:

($ millions except financial ratios)	September 30, 2014	December 31, 2013	Change
Current assets(1)	67.7	60.0	7.7
Current liabilities(2)	22.9	18.1	4.8
Working capital(3)	44.8	41.9	2.9
Working capital ratio(4)	3.0:1	3.3:1	(0.3:1)
Total debt	-	6.7	(6.7)
Total debt-to-capitalization percentage(5)	0%	5.7%	(5.7%)
Cash and cash equivalents	46.0	33.7	12.3
Net cash(6)	46.0	27.0	19.0

Notes:
(1) *Calculated as all current assets.*
(2) *Calculated as current liabilities excluding the current portion of long-term debt, if any.*
(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 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. The Corporation has a credit facility (see "Credit Facility" below) from which up to $40 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 $39.7 million for the nine months ended September 30, 2014 (2013 - $26.9 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 $46.0 million as at September 30, 2014, which is targeted to meet the capital expenditures anticipated for the remainder of 2014 and into 2015. The Corporation believes it has sufficient cash to meet its needs for the foreseeable future.

Long-Term Debt

As at September 30, 2014, the main components of the Corporation's available credit facilities are a $40 million (December 31, 2013 - $30 million) revolving loan and a $5 million revolving operating loan. The maturity date of amounts outstanding under both main components of the credit facilities is August 31, 2016 and no principal payments are required prior to that date. Outstanding long-term debt is secured by all of the assets of the Canadian parent and by guarantees given by its material foreign subsidiaries. In August, 2014, the Corporation paid the outstanding balance of the long-term debt of $6.7 million.

The available amount under the $40 million revolving loan facility is limited to 65% of the net book value of the Canadian fixed assets plus 65% of the net book value of fixed assets in High Arctic Energy Services (Singapore) Pte. Ltd. limited to export guarantees provided by Export Development Canada ("EDC"), less priority claims. The amount available to draw under the $5 million revolving operating loan is limited to 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement. At September 30, 2014, no guarantee had been executed with EDC and the total credit available to draw under the facility was approximately $28.0 million.

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. An annual standby fee of 0.35% is charged on any undrawn portion of the facilities. The effective interest rate on the long-term debt was 4% for the three and nine months ended September 30, 2014 and for the year ended December 31, 2013.

As at September 30, 2014, the Corporation had no long-term debt. The cash and cash equivalents at September 30, 2014 were $46.0 million. As of the date of this MD&A, the Corporation has no long term debt.

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 September 30, 2014, this ratio was 0:1 (2013 – 0.17:1).

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 September 30, 2014, this ratio was 6.56:1 (2013 – 4.49:1).

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 September 30, 2014, this ratio was 0.15:1 (2013 – 0.22:1).

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 September 30, 2014, this ratio was 2.96:1 (2013 – 3.17:1).

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:

	September 30, 2014	December 31, 2013
Less than 31 days	15.3	21.0
31 to 60 days	1.0	0.6
61 to 90 days	0.1	0.6
Greater than 90 days	0.1	0.3
Allowance for doubtful accounts	(0.6)	(0.6)
Total	**15.9**	**21.9**

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

Canadian dollar	6.0	7.4
United States dollar (2014 – US$8.8; 2013 – US$13.7)	9.9	14.5
Total	**15.9**	**21.9**

The allowance for doubtful accounts provision is based on an individual account by account analysis. The Corporation's normal credit terms are net 30 days.

Cash Flows

Operating Activities

Funds provided from operations for the nine months ended September 30, 2014 were $30.5 million (2013 - $24.5 million). After working capital adjustments, net cash generated from operating activities during the first nine months of 2014 was $39.7 million compared to $26.9 million for the first nine months of 2013. Funds provided from operations for the three months ended September 30, 2014 were $7.6 million (2013 - $8.2 million). After working capital adjustments, net cash generated from operating activities during Q3 2014 was $10.9 million compared to $8.8 million for Q3 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 nine months ended September 30, 2014, capital expenditures were $41.0 million (2013 – $17.7 million). Most of the capital expenditures in 2014 were incurred with the acquisition of two heli-portable drilling rigs, their packaging and subsequent shipment from Brazil to Houston and the commencement of the upgrading of one of the rigs. Additional costs have been incurred 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 in the first nine months of 2014 of $6.7 million ($0.13 per share) (2013 - $5.3 million ($0.1075 per share)) were 22% of funds provided from operations for the first nine months of 2014 (2013 – 22%).

To the date of this MD&A, dividends totalling $0.145 per common share ($7.6 million) have been declared for 2014.

Issuance of Common Shares

On July 28, 2014, the Corporation completed a public offering of 5,051,000 common shares at a price of $4.95 per share for net proceeds of $23.6 million.

Repayment of Long-Term Debt

In August, 2014, High Arctic repaid the balance of its long-term debt of $6.7 million. As of the date of this MD&A, the Corporation has no long-term debt outstanding.

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.

	2014			2013				2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Oil and natural gas prices **Average for the period**								
Brent Crude Oil *(US $ /bbl)*	$103	$110	$108	$109	$110	$103	$112	$110
IPE Britain NBP Natural Gas (US$ /Mmbtu)	$7.30	$7.59	$10.03	$11.37	$10.15	$10.00	$10.47	$10.62
US/Canadian dollar exchange rate	1.09	1.09	1.10	1.05	1.04	1.03	0.99	1.01

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 2013 saw the US dollar trading at a premium of approximately 4% and an additional 5% premium has been realized for the first nine 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 customers in PNG is less dependent on short term fluctuations in oil and gas prices and instead is based on long term decisions, particularly with their significant interest in large scale LNG projects both onstream and in development. The price they receive for crude oil production is 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Oil and natural gas prices **Average for the period**								
West Texas Intermediate *(US $ /bbl)*	$97	$103	$99	$97	$106	$94	$94	$88
AECO *(C$ /Mmbtu)*	$4.03	$4.70	$5.63	$3.52	$2.43	$3.50	$3.08	$3.22
Other industry indicators								
Well completions in Western Canada(1)	2706	1,754	3,135	3,392	2,711	1,683	3,102	3,687
Gas well drilling in Western Canada(1)	351	421	540	610	289	282	447	489
Average drilling rig utilization rates(1)	47%	24%	64%	45%	41%	18%	61%	44%

(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 past relative strength of oil prices. Recent declines in oil prices have yet to negatively impact oil project spending. Natural gas prices improved significantly the first nine months 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 $4.03 for the first nine 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 experienced 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. For the first nine months of 2014, activity levels have increased compared to the prior year due to improvements in commodity prices. The Canadian Association of Oilwell Drilling Contractors is forecasting the completion of 11,494 wells for 2014, an increase 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. 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)	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012
Revenue	**41.3**	**39.8**	**44.5**	**38.7**	**36.3**	**32.9**	**44.8**	**38.6**
Adjusted EBITDA	9.8	11.1	15.1	12.5	9.8	6.6	12.6	10.0
Net earnings	3.7	6.7	9.3	6.4	7.7	2.1	8.4	5.9
per share – basic	0.07	0.13	0.19	0.13	0.16	0.04	0.17	0.12
per share – diluted	0.07	0.13	0.18	0.13	0.16	0.04	0.17	0.12
Funds provided from operations	7.6	9.8	13.1	10.8	8.2	5.1	11.2	8.7

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

Rig 104, along with the 104 leap frog rig, continues to operate with our largest customer in the PNG highlands. It is expected that the rig will be fully utilized for the remainder of 2014 and through its contract term which runs to June 2016. Drilling activities are for both development oil wells to replace depleting production and gas wells to continue to provide feedstock for the PNG-LNG liquefaction plant.

Rig 103, along with the 103 leap frog rig and ancillary rental equipment, continues to work in the Gulf Province of PNG for another customer. After completion of the drilling services contract with this customer late in the first quarter of 2015, Rig 103 is expected to re-commence drilling activities with our largest customer, under the existing contract, which runs through to June, 2016.

Rig 115 is currently undergoing upgrading in Houston, Texas in preparation for its first two years of contracted work in PNG. The rig is scheduled to be shipped from Houston late in the fourth quarter of 2014 and arrive in PNG for mobilization to site in the first quarter of 2015.

Rig 102 continues to be stacked following the completion of its last contract in May of 2014. This rig will remain in PNG as it is the only heli portable hydraulic workover rig currently in the country available to meet the future demand for workover and snubbing services from the growing number of production wells. Presently there is no work contracted for this rig.

Our existing rental equipment in PNG continues to be sufficient for the current drilling activity. As such, approximately $8 million of budgeted capital expenditures for rental equipment in 2014 has been deferred. In the third quarter of 2014, rental equipment utilization was lower than the prior quarter of 2014 due to the completion of a significant project. The addition of our two new drilling rigs should generate demand for redeployment of this idle equipment in 2015. Our contract with a second major rental customer will conclude in stages throughout 2015 as their drilling program is completed. Management continues to evaluate new markets for expansion and redeployment of our rental assets.

Activity levels in Canada in the third quarter of 2014 were improved compared to the prior year, due to more favourable weather, and stronger demand for completion and workover services in Northeast British Columbia. Despite the recent decline in commodity prices, High Arctic anticipates that activity levels for Q4 2014 will be similar to those of Q4 2013 as customers have remaining well completion budgets to expend prior to year end. The current uncertainty surrounding declining commodity prices has not yet impacted expected activity levels for the upcoming winter season. Should commodity prices continue to decline, activity levels in Canada coming out of spring break up could be negatively affected.

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 33% of the Corporation's revenue for the nine months ended September 30, 2014 (2013 – 67%) and 31% of its accounts receivable at that date (2013 – 56%). The second customer represents approximately 29% of the Corporation's revenue for the nine months ended September 30, 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 8% of the Corporation's revenue for the nine months ended September 30, 2014 (2013 – 10%) and 7% of the Corporation's accounts receivable at that date (2013 – 6%). Management has assessed the three customers as creditworthy and the Corporation has had no history of collection issues with these customers.

Related Party Transactions

Loans

In August, 2014 the Corporation made loans to certain officers of the Corporation in the total aggregate amount of $0.2 million. The purpose of the loans was to assist the officers with the payment of Canadian income taxes arising on the issuance of common shares of the Corporation under the Corporation's EDSIP. 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 of the Corporation and (ii) August 15, 2017. As at September 30, 2014, the amount outstanding related to these loans was $0.2 million.

Office Lease

Effective July 1, 2014 the Corporation entered into a six month rental agreement with an officer of the Corporation for temporary office space at $2,000 per month.

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 September 30, 2014, the Corporation had approximately $1.3 million of committed expenditures for the purchase of capital assets which were not yet recorded because the assets had not been delivered. On July 28, 2014, the Corporation completed the purchase of two heli-portable drilling rigs and associated ancillary equipment (the "Acquisition") for approximately US$29 million. The total amount to purchase, deliver, upgrade and commission the two rigs is currently estimated at approximately US$65 million to US$70 million. This estimate includes anticipated customer requested upgrades recoverable from the customer through additional revenues, two new rig camps and some ancillary equipment. As of September 30, 2014, US$32.9 million of the expenditures had been incurred.

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.

Contractual Obligations

In addition to the commitments and contingencies and related party transactions noted above, 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 September 30, 2014:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	18.7	-	-	-	18.7
Dividends payable	0.8	-	-	-	0.8
Total	**19.5**	**-**	**-**	**-**	**19.5**

Lease Obligations

The Corporation has entered into long-term premise leases for operating facilities. These leases are operating leases and the remaining length of the lease terms are up to five years. All of the premise leases 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 September 30, 2014 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	0.5	0.4	0.4	-	1.3
Total lease commitments	**0.5**	**0.4**	**0.4**	**-**	**1.3**

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 both Papua New Guinea and Canada 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;
- fluctuations in industry activity levels in western Canada, primarily due to the volatility of 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. As at September 30, 2014, no long-term debt amounts were outstanding.

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 nine months ended September 30, 2014, a 1% nominal change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $0.9 million (2013 - $0.6 million) change in other comprehensive income and a $0.2 million (2013 – $0.2 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 of the Corporation's customers, 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 customers 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

Financial Instruments

On July 24, 2014, the IASB issued IFRS 9, "*Financial Instruments*" ("IFRS 9") to replace International Accounting Standard 39, "*Financial Instruments: Recognition and Measurement*." IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Corporation is currently evaluating the impact of adopting IFRS 9 on the Financial Statements.

Revenue Recognition

In May 2014, the IASB published IFRS 15, "*Revenue From Contracts With Customers"* ("IFRS 15") replacing IAS 11, "*Construction Contracts*", IAS 18, "*Revenue*" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is currently evaluating the impact of adopting IFRS 15 on the Financial Statements.

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 September 30, 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 September 30, 2014 which have materially affected, or are reasonably likely to materially affect High Arctic's DC&P.

Internal Controls Over Financial Reporting

Internal controls 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 September 30, 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 September 30, 2014, and, based on that assessment, have concluded that ICFR was effective as at September 30, 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.