High Arctic Energy Services Inc.
Management's Discussion and Analysis
For the Three and Six Months Ended June 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 six months ended June 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 August 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.

High Arctic Energy Services Inc.
Management's Discussion and Analysis
For the Three and Six Months Ended June 30, 2014 and 2013

Highlights

- Adjusted EBITDA(1)(2) increased by 68% for the three months ended June 30, 2014 to $11.1 million (Q2 2013 - $6.6 million). For the six months then ended, adjusted EBITDA was $26.2 million; a 36% increase over the first half of 2013 ($19.2 million).
- In June, 2014, the appointments of a new CEO and President, International were announced; both individuals bring significant international drilling experience to High Arctic.
- In April, 2014, High Arctic signed a two year drilling services contract with a large oil and gas operator in PNG that commences with the spud of a first well, which is expected to occur in early 2015. In conjunction with the drilling commitment, the Corporation completed the acquisition of two heli-portable drilling rigs on July 28, 2014 (the "Acquisition").
- The Corporation closed its previously announced bought deal financing of $25.0 million resulting in the issuance of 5,051,000 common shares at $4.95 in July, 2014.
- High Arctic increased its monthly dividend to $0.015 per share in March, 2014, a 20% increase from the previous monthly dividend amounts. The Corporation continues to maintain a strong balance sheet with a trailing annual payout ratio of 19%.

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 June 30				Six Months Ended June 30			
$ millions (except per share amounts)	2014	2013	Change	%	2014	2013	Change	%
Revenue	**39.8**	**32.9**	**6.9**	**21**	**84.3**	**77.7**	**6.6**	**8**
EBITDA(1)	**11.5**	**6.3**	**5.2**	**83**	**25.7**	**18.7**	**7.0**	**37**
Adjusted EBITDA(1)	**11.1**	**6.6**	**4.5**	**68**	**26.2**	**19.2**	**7.0**	**36**
Operating earnings	**7.6**	**3.7**	**3.9**	**105**	**19.4**	**13.5**	**5.9**	**44**
Net earnings	**6.7**	**2.1**	**4.6**	**219**	**16.0**	**10.5**	**5.5**	**52**
per share (basic)(2)	0.13	0.04	0.09		0.32	0.22	0.10	
per share (diluted)(2)	0.13	0.04	0.09		0.32	0.21	0.11	
Funds provided from operations(1)	**9.8**	**5.1**	**4.7**	**92**	**22.9**	**16.3**	**6.6**	**40**
per share (basic)(2)	0.20	0.11	0.09		0.46	0.34	0.12	
per share (diluted)(2)	0.19	0.10	0.09		0.45	0.33	0.12	
Dividends	**2.3**	**1.8**	**0.5**		**4.3**	**3.4**	**0.9**	
Capital expenditures	**2.7**	**4.9**	**(2.2)**		**4.2**	**10.8**	**(6.6)**	
Working Capital					**56.6**	**38.2**	**18.4**	**48**
Total assets					**151.4**	**126.9**	**24.5**	**19**
Total non-current financial liabilities					**6.7**	**10.7**	**(4.0)**	**(37)**
Net cash, end of period (1)					**40.5**	**19.6**	**20.9**	**107**
Shares outstanding - end of period(2)					**50.4**	**49.8**	**0.6**	

(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 and six months ended June 30:

($ millions)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net earnings for the period	6.7	2.1	16.0	10.5
Add:				
Interest and finance expense	0.1	0.2	0.3	0.4
Income taxes	1.5	1.2	3.2	2.4
Amortization	3.2	2.8	6.2	5.4
EBITDA	**11.5**	**6.3**	**25.7**	**18.7**
Add:				
Share-based compensation	0.3	0.1	0.6	0.3
Foreign exchange (gain) loss	(0.7)	0.2	(0.1)	0.2
Adjusted EBITDA	**11.1**	**6.6**	**26.2**	**19.2**

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 six months ended June 30:

($ millions)	Three Months ended June 30, 2014	Three Months ended June 30, 2013	Six Months ended June 30, 2014	Six Months ended June 30, 2013
Net cash generated from operating activities	17.6	15.3	28.8	18.1
Less:				
Net changes in items of non-cash working capital	(7.8)	(10.2)	(5.9)	(1.8)
Funds provided from operations	**9.8**	**5.1**	**22.9**	**16.3**

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 June 30:

($ millions)	2014	2013
Cash and cash equivalents	47.2	30.4
Less:		
Long-term debt	(6.7)	(10.8)
Net cash	**40.5**	**19.6**

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

Revenues for the first half of 2014 increased by 8% to $84.3 million compared to $77.7 million for the same period in 2013. For the three months ended June 30, 2014, revenues were $39.8 million; a 21% increase over the revenues generated during Q2 2013. Revenues increased from both the PNG and Canadian operations. The increases in PNG revenue were due to higher rental revenues and the benefit of a strong U.S. dollar. Canadian activity levels were much higher in the first half of 2014 than the same period in 2013 for both snubbing and nitrogen services.

The Corporation continues to generate strong cash flows from its operations. For the six months ended June 30, 2014, High Arctic generated $22.9 million (2013- $16.3 million) of funds provided from operations. At June 30, 2014, the Corporation had $40.5 million of net cash on hand (June 30, 2013 - $19.6 million) and working capital of $56.6 million (June 30, 2013 - $38.2 million).

Operating margins were considerably higher in the first half of 2014 compared to the same period of 2013, mainly due to higher margins realized on rentals of equipment as compared to those of 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. Dividends paid in the twelve months ended June 30, 2014 totalled $8.0 million which represents an annualized rate of 19% of funds provided from operations during the trailing twelve months.

Increased revenues resulted in Adjusted EBITDA of $26.2 million for the six months ended June 30, 2014; a 36% increase from $19.2 million earned for the first half of 2013.

Operating Results for the three and six months ended June 30, 2014 and 2013

Consolidated oilfield services operating margins continued to be strong and increased to 38% of revenue for the first six months of 2014 as compared to 31% 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 operations which experienced higher margins in the first half of the year with personnel and equipment utilized at a higher rate than in the same period in 2013. An overall increase of $7.7 million was realised in the operating margin for the first half of 2014 over the first six months of 2013.

	Three Months Ended June 30				Six Months Ended June 30			
($ millions)	2014	2013	Change	%	2014	2013	Change	%
Revenue								
Papua New Guinea	31.8	28.3	3.5	12	61.3	58.2	3.1	5
Canada	8.0	4.6	3.4	74	23.0	19.5	3.5	18
Total	**39.8**	**32.9**	**6.9**	**21**	**84.3**	**77.7**	**6.6**	**8**
Oilfield services expense	**26.0**	**23.9**	**2.1**	**9**	**52.4**	**53.5**	**(1.1)**	**(2)**
Percent of revenue	65%	73%			62%	69%		
Oilfield services operating margin	**13.8**	**9.0**	**4.8**	**53**	**31.9**	**24.2**	**7.7**	**32**
Percent of revenue	35%	27%			38%	31%		

Operations in PNG

Revenue for the PNG operations for the six months ended June 30, 2014 increased by 5% to $61.3 million (2013 - $58.2 million). Higher matting and equipment rental revenues in 2014 (2014 - $15.1 million; 2013 - $11.8 million), due to rentals placed in service in the second half of 2013 and a stronger U.S. dollar, offset the reduction of revenues due to Rig 102 being warm stacked until May 14, 2014 and cold stacked thereafter.

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 $17.4 million for 2014 compared to $15.8 million for the first half of 2013.

Rig 104 and the 104 leap frog rig 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. 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 half of 2014. In 2013, both rigs were active throughout the first four months of the year and 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 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 June, 2014 with approximately 9,300 mats under contract, a heli-portable camp, and various trucks, cranes and other oilfield equipment.

Operations in Canada

Revenue for the Canadian operations increased by 18% to $23.0 million (2013 - $19.5) for the first six months of the year. Total equipment utilization for the first half of 2014 was 44% compared to 37% 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 $15.8 million for the first half of 2014 (2013 - $13.6 million). Utilization rates for the snubbing units for the six months ended June 30 were 35% for 2014 as compared to 29% for 2013. Although High Arctic has increased its customer base, average job times decreased during the first half 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 $5.9 million for the six months ended June 30, 2014 compared to $4.8 million for the same period in 2013. The increase in revenue was attributable to increased utilization for nitrogen services for the first half of 2014 of 65% (2013 – 57%) which was partially offset by competitive pricing pressures.

Oilfield Services Expense and Oilfield Services Operating Margin

	Three Months Ended June 30				Six Months Ended June 30			
($ millions)	**2014**	**2013**	**Change**	**%**	**2014**	**2013**	**Change**	**%**
Oilfield services expense	**26.0**	**23.9**	**2.1**	**9**	**52.4**	**53.5**	**(1.1)**	**(2)**
Percent of revenue	65%	73%			62%	69%		
Oilfield services operating margin	**13.8**	**9.0**	**4.8**	**53**	**31.9**	**24.2**	**7.7**	**32**
Percent of revenue	35%	27%			38%	31%		

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 62% for the first six months of 2014 from 69% for the same period in 2013. Operating margins as a percentage of revenue were higher 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 very little expenses.

Oilfield services expenses by nature

	Three Months Ended June 30		Six Months Ended June 30	
($ millions)	**2014**	**2013**	**2014**	**2013**
Personnel costs and personnel related costs	10.2	10.2	21.9	24.1
Drilling rig and other rental costs	9.0	7.7	17.9	16.4
Material and supplies cost	4.7	3.8	7.8	7.9
Equipment operating and maintenance costs	1.9	1.9	4.4	4.5
Other	0.2	0.3	0.4	0.6
Total	**26.0**	**23.9**	**52.4**	**53.5**

Personnel and related costs decreased for the six months ended June 30, 2014 as compared to the same period in 2013 due mainly to the release of the Rig 102 crew. During Q2 2014, both Rig 103 and 104 were fully operating as compared to operating on a moving rig basis for two of the three months of Q2 2013; the result being that their increased personnel costs offset the decrease of those from Rig 102 and there was no change in such costs year over year for Q2. 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 June 30			Six Months Ended June 30		
($ millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
General and Administration	**2.7**	**2.4**	**0.3**	**5.7**	**5.0**	**0.7**
Percent of revenue	7%	7%		7%	6%	

General and administration expenses (G&A) for the three and six months ended June 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 June 30			Six Months Ended June 30		
($ millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Amortization	**3.2**	**2.8**	**0.4**	**6.2**	**5.4**	**0.8**
Percent of revenue	8%	9%		7%	7%	

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 June 30			Six Months Ended June 30		
($ millions)	2014	2013	Change	2014	2013	Change
Share-based compensation	**0.3**	**0.1**	**0.2**	**0.6**	**0.3**	**0.3**
Percent of revenue	<1%	<1%		<1%	<1%	

The increase in share-based compensation expense to $0.6 million for the six months ended June 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.

Foreign Exchange Gain (Loss)

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	2014	2013	Change	2014	2013	Change
Foreign exchange gain loss	**0.7**	**(0.2)**	**0.9**	**0.1**	**(0.2)**	**0.3**
Percent of revenue	<1%	<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. 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 not considered part of its net investment in the foreign operation 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. In the first half of 2014, the Canadian dollar lost an average of approximately 6% of its value against the U.S. dollar as compared to the first six months of 2013 and operating results were favourably impacted by the stronger US dollar.

Interest and Finance Expense

The principal amount of the senior debt was $6.7 million at June 30, 2014 compared to $10.7 million at June 30, 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 slightly for the first quarter of 2014 as compared to the same period in 2013 as a result of the reduced debt.

Income Taxes

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	2014	2013	Change	2014	2013	Change
Current income tax expense	**1.5**	**1.1**	**0.4**	**3.2**	**2.3**	**0.9**
Percent of revenue	4%	3%		4%	3%	
Deferred income tax expense	**-**	**0.1**	**(0.1)**	**-**	**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 $59.2 million as at June 30, 2014 (2013 - $54.8 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:

	June 30, 2014
Property and equipment	2.3
Non- capital losses	72.9
Capital losses	5.4
Financing costs	3.1
Total	**83.7**

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 June 30, 2014, there were 50,360,952 issued and outstanding common shares. Since then, 23,000 options to purchase shares have been exercised.

On June 11, 2014, the Corporation closed a bought deal public financing (the "Offering") through a syndicate of underwriters. Pursuant to the Offering, the Corporation issued 5,051,000 subscription receipts at a price of $4.95 each for gross proceeds of approximately CDN$25 million. In accordance with their terms, each subscription receipt was exchanged for one common share of the Corporation on July 28, 2014 and the proceeds from the sale of the subscription receipts were released from escrow.

As of the date of this MD&A, there were 55,434,952 issued and outstanding common shares including 18,000 shares held in the Executive and Director Share Incentive Plan that had not yet vested as of June 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 June 30, 2014, there were 2,451,800 options outstanding to acquire common shares of the Corporation at an average exercise price of $2.82 per share. Since then, 23,000 options have been exercised and no options have been granted resulting in 2,428,800 options outstanding at an average exercise price of $2.83 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 August 11, 2014 was $5.01 per share. Based upon the issued common shares on that date of 55,434,952, the Corporation has an approximate market capitalization of $277.6 million.

Liquidity and Capital Resources

Selected Capitalization Data:

($ millions except financial ratios)	June 30, 2014	December 31, 2013	Change
Current assets(1)	76.3	60.0	16.3
Current liabilities(2)	19.7	18.1	1.6
Working capital(3)	56.6	41.9	14.7
Working capital ratio(4)	3.9:1	3.3:1	-
Total debt	6.7	6.7	-
Total debt-to-capitalization percentage(5)	5.1%	5.7%	(10.5%)
Cash and cash equivalents	47.2	33.7	13.5
Net cash(6)	40.5	27.0	13.5

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. 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 0.14 at June 30, 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 $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 $28.8 million for the six months ended June 30, 2014 (2013 - $18.1 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 $47.2 million as at June 30, 2014, which, along with the available undrawn credit facilities and the issuance of common shares in July, 2014, 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

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

The available amount to be advanced under the $40 million revolving loan agreement 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 June 30, 2014, no guarantee had been executed with EDC and the total credit available to draw under the facility was approximately $25.8 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. 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 facilities. The effective interest rate on the long-term debt was 4% for the three and six months ended June 30, 2014 and for the year ended December 31, 2013.

As at June 30, 2014, the Corporation had long-term debt of $6.7 million. The revolving facility does not require principal repayments prior to maturity so the entire amount is classified as long-term at June 30, 2014. The cash and cash equivalents at June 30, 2014 exceeded total debt by $40.5 million.

In August, 2014, the Corporation repaid $6.7 million in outstanding long term debt from available cash and cash equivalents. 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 June 30, 2014, this ratio was 0.14:1 (2013 – 0.27:1).

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 June 30, 2014, this ratio was 5.18:1 (2013 – 4.56:1).

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 June 30, 2014, this ratio was 0.21:1 (2013 – 0.27:1).

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 June 30, 2014, this ratio was 3.87:1 (2013 – 3.45:1).

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:

	June 30, 2014	December 31, 2013
Less than 31 days	12.9	21.0
31 to 60 days	1.8	0.6
61 to 90 days	0.6	0.6
Greater than 90 days	1.7	0.3
Allowance for doubtful accounts	(0.6)	(0.6)
Total	**16.4**	**21.9**

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

Canadian dollar	3.5	7.4
United States dollar (2014 – US$12.1; 2013 – US$13.7)	12.9	14.5
Total	**16.4**	**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 six months ended June 30, 2014 were $22.9 million (2013 - $16.3 million). After working capital adjustments, net cash generated from operating activities during the first half of 2014 was $28.8 million compared to $18.1 million for the first six months of 2013. Funds provided from operations for the three months ended June 30, 2014 were $9.8 million (2013 - $5.1 million). After working capital adjustments, net cash generated from operating activities during Q2 2014 was $17.6 million compared to $15.3 million for the Q2 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 six months ended June 30, 2014, capital expenditures were $4.2 million (2013 – $10.8 million). Most of the capital expenditures in 2014 were directed for upgrades to the Canadian Stand-Alone fleet and completion of the construction of a new facility in Grande Prairie, Alberta. Packaging costs to prepare the two drilling rigs for shipment that were acquired in July, 2014 were also incurred in Q2 2014.

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 six months of 2014 of $4.3 million ($0.085 per share) (2013 - $3.4 million ($0.07 per share)) was 19% of funds provided from operations for the first half of 2014 (2013 – 21%).

To the date of this MD&A, dividends totalling $0.10 per common share ($5.3 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.

	2014		**2013**				**2012**	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Oil and natural gas prices **Average for the period**								
Brent Crude Oil *(US $ /bbl)*	$109	$108	$109	$110	$103	$112	$110	$109
IPE Britain NBP Natural Gas (US$ /Mmbtu)	$8.81	$10.03	$11.37	$10.15	$10.00	$10.47	$10.62	$9.00
US/Canadian dollar exchange rate	1.10	1.10	1.05	1.04	1.026	0.99	1.01	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 has seen the US dollar trading at a premium of approximately 3% for 2013 and an additional 6% for the first six 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 its significant interest in a large scale LNG project currently 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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and natural gas prices **Average for the period**								
West Texas Intermediate *(US $ /bbl)*	$101	$99	$97	$106	$94	$94	$88	$92
AECO *(C$ /Mmbtu)*	$5.16	$5.63	$3.52	$2.43	$3.50	$3.08	$3.22	$2.29
Other industry indicators								
Well completions in Western Canada(1)	1,754	3,135	3,392	2,711	1,683	3,102	3,687	2,835
Gas well drilling in Western Canada(1)	421	540	610	289	282	447	489	388
Average drilling rig utilization rates(1)	24%	64%	45%	41%	18%	61%	44%	42%

(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 half 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 $5.16 for the first six 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 half 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)	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012
Revenue	**39.8**	**44.5**	**38.7**	**36.3**	**32.9**	**44.8**	**38.6**	**35.8**
Adjusted EBITDA	11.1	15.1	12.5	9.8	6.6	12.6	10.0	10.1
Net earnings	6.7	9.3	6.4	7.7	2.1	8.4	5.9	6.5
per share – basic	0.13	0.19	0.13	0.16	0.04	0.17	0.12	0.14
per share – diluted	0.13	0.18	0.13	0.16	0.04	0.17	0.12	0.13
Funds provided from operations	9.8	13.1	10.8	8.2	5.1	11.2	8.7	9.4

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

In Papua New Guinea ("PNG") in the second quarter of 2014, the commencement of liquefied natural gas ("LNG") shipments to Japan was a significant milestone for both the country and the oil and gas industry. The success of the first two trains of the PNG-LNG plant provides optimism for further expansion and additional LNG plants. The revenue from LNG sales will not only be transformative to the country, but should also support continued industry growth within PNG, which in turn should provide long term demand for our services.

Currently Rig 104, along with the 104 leap frog rig, continues to operate full time for our largest customer in PNG, and is expected to be operational for all of 2014 and beyond under its contract that runs through June 2016. Drilling activities are for both development oil wells to replace depleting production and drilling gas wells to continue to provide feedstock for the 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. Work under this contract is expected to continue into 2015 on the current timeline. After completion of its current drilling program, Rig 103 is expected to return to active service with its owner, with whom it is under contract until June, 2016..

The previously announced purchase of two late model heli-portable drilling rigs closed on July 28, 2014 andthe rigs have since been transported to Houston, Texas to be upgraded and commissioned. Rig 115 will be completed first and then shipped to PNG where it will immediately begin drilling under a two year contract. The target spud date is early 2015. Efforts continue to secure a contract for Rig 116 in PNG.

The contract for Rig 102 expired in May and the rig is not expected to earn any additional revenue in 2014. Rig 102 will remain in PNG as it is the only heli portable hydraulic workover rig currently in the country available to meet the expected future demand for workover and snubbing services from the increasing number of production wells.

Our existing rental equipment in PNG is sufficient for the current drilling activity. Approximately $4 million of budgeted capital expenditures for matting in 2014 has been deferred. With the maturing of the rental business, some rental equipment will come off contract in the third quarter of 2014. The addition of our two new drilling rigs and the growing activity levels in the country should generate demand for additional rental equipment over time.

Activity levels in Canada for the second quarter of 2014 were much improved when compared to the prior year, due in part to better weather conditions and stronger demand for services. As commodity prices in 2014 continue to be stronger than in 2013, there is increased optimism that second half activity levels will also be better than those of the prior year. This stronger commodity price environment, along with improved access to capital, is allowing our customers to continue to execute on their 2014 capital expenditure programs. Overall, the energy services environment in Canada looks positive for the second half of 2014.

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 37% of the Corporation's revenue for the six months ended June 30, 2014 (2013 – 68%) and 20% of its accounts receivable at that date (2013 – 65%). The second customer represents approximately 26% of the Corporation's revenue for the six months ended June 30, 2014 (2013 – nil) and 38% 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 six months ended June 30, 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 June 30, 2014, the Corporation had approximately $4.4 million of committed expenditures for the purchase of capital assets which were not yet recorded because the assets will be delivered later in 2014. Additionally, 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 drilling rigs is estimated at US$52 million.

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 events

Acquisition of Drilling Rigs

In April, 2014, the Corporation 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, 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 estimated cost to purchase, deliver, upgrade and commission the two drilling rigs is estimated at US$52 million.

Completion of financing

On June 11, 2014, the Corporation closed a bought deal public financing (the "Offering") through a syndicate of underwriters. Pursuant to the Offering, the Corporation issued 5,051,000 subscription receipts at a price of $4.95 each for gross proceeds of approximately $25 million. In accordance with their terms, each subscription receipt was exchanged for one common share of the Corporation on July 28, 2014 upon closing of the Acquisition and the proceeds from the sale of the subscription receipts were released from escrow.

In August, 2014, the Corporation repaid $6.7 million in outstanding long term debt from available cash and cash equivalents.

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 June 30, 2014:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	16.1	-	-	-	16.1
Dividends payable	0.8				0.8
Long-term debt and related interest	0.3	6.8	-	-	7.1
Total	**17.2**	**6.8**	**-**	**-**	**24.0**

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 one and a half 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 June 30, 2014 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	0.5	0.1	-	-	0.6
Total lease commitments	**0.5**	**0.1**	**-**	**-**	**0.6**

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;
- 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. For the six months ended June 30, 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 six months ended June 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 - $0.5 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

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