

High Arctic Energy Services Inc.
Management's Discussion and Analysis
For the Years Ended December 31, 2012 and 2011

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 audited consolidated financial statements of High Arctic for the years ended December 31, 2012 and 2011 and the notes contained therein (the "Financial Statements"). This information is available at SEDAR (www.sedar.com).

Forward-Looking Statements

This MD&A contains forward-looking statements. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions are intended to identify forward-looking statements. Such statements reflect the 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 2013 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.

This MD&A is dated March 12, 2013.

Corporate Profile

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

The Canadian operation is focused on providing snubbing services and the supply of nitrogen to a large number of oil and natural gas exploration and production companies operating in Western Canada. The Corporation's fleet of equipment in Canada at December 31, 2012 included 20 snubbing units, 12 nitrogen pumpers, 5 nitrogen transports and 3 rack and pinion underbalanced work-over units ("250K UB units"), all of which operate primarily in the spot market on a well by well basis. High Arctic has a substantial operation in Papua New Guinea where it provides contract drilling, specialized well completion services and supplies rig matting, camps and drilling support equipment on a rental basis. The Corporation owns and operates the only heli-portable hydraulic workover rig in PNG and is contracted to operate up to three heli-portable drilling rigs owned by a large oil and gas company. Services in PNG are generally provided under term contracts ranging from 6 months to 3 years.

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Key Financial Measures

This MD&A contains references to certain financial measures that do not have a standardized meaning prescribed by IFRS or previous Canadian GAAP and may not be comparable to the same or similar terms 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, 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, gain on sale of assets or investments, foreign exchange gains or losses and other non-recurring charges, and is not intended to represent net earnings as calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of consolidated net earnings to EBITDA and Adjusted EBITDA for the three months and year ended December 31, 2012 and 2011:

	Three months ended December 31, 2012	Three months ended December 31, 2011
Net earnings	5.9	7.8
Add:		
Interest and finance expenses	0.2	0.4
Income taxes	1.0	0.6
Amortization	2.7	2.2
EBITDA	9.8	11.0
Add (deduct):		
Share-based compensation	0.1	0.5
Foreign exchange (gain) loss	0.1	(0.3)
Adjusted EBITDA	10.0	11.2

	Year ended December 31, 2012	Year ended December 31, 2011
Net earnings	28.8	18.0
Add (deduct):		
Interest and finance expenses	1.0	1.9
Income tax expense (recovery)	(1.3)	3.4
Amortization	9.7	8.7
EBITDA	38.2	32.0
Add (deduct):		
Share-based compensation	1.4	2.8
Gain on sale of investments	-	(2.0)
Foreign exchange (gain) loss	-	0.6
Adjusted EBITDA	39.6	33.4

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Operating Earnings

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

Oilfield Services Operating Margin

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

Oilfield Services Operating Margin %

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

Cash Flow Provided by Operations

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

Operating working capital

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

Net debt and net cash

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

Market capitalization

Market capitalization is used by management 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.

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Selected Comparative Financial Information

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

\$ millions (except per share amounts)	Three Months Ended December 31				Years Ended December 31			
	2012	2011	Change	%	2012	2011	Change	%
Revenue	38.6	37.1	1.5	4	146.2	127.2	19.0	15
EBITDA⁽¹⁾	9.8	11.0	(1.2)	(11)	38.2	32.0	6.2	19
Adjusted EBITDA⁽¹⁾	10.0	11.2	(1.2)	(11)	39.6	33.4	6.2	19
Operating earnings	7.1	8.8	(1.7)	(19)	28.5	23.3	5.2	22
Net earnings	5.9	7.8	(1.9)	(24)	28.8	18.0	10.8	60
per share (basic) ⁽²⁾	0.12	0.17	(0.05)		0.62	0.40	0.22	
per share (diluted) ⁽²⁾	0.12	0.16	(0.04)		0.59	0.37	0.22	
Cash flows provided by operations⁽¹⁾	8.7	10.7	(2.0)	(19)	34.9	29.8	5.1	17
Dividends	1.5	-	1.5	-	4.0	-	4.0	-
Capital expenditures	2.9	0.2	2.7	1350	19.9	13.3	6.6	50
Total assets					118.9	93.5	25.4	27
Total non-current financial liabilities					13.7	12.4	1.3	10
Net cash (net debt) end of year⁽¹⁾					13.6	(1.0)	14.6	
Shares outstanding - end of year⁽²⁾					49.8	49.6	0.2	

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

(2) The restricted shares held by a trustee under the Executive and Director Incentive Share Plan are included in the shares outstanding. The number of shares used in calculating the per share net earning amounts are determined differently as explained in the Financial Statements.

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Overview

High Arctic continued its strong year over year growth in revenue, EBITDA and net earnings in 2012. Adjusted EBITDA increased 19% to \$39.6 million for the year. Consolidated net earnings for the year increased by 60% to \$28.8 million from \$18.0 million earned in 2011. The operations in Papua New Guinea (PNG) generated higher revenue and EBITDA in the fourth quarter which helped to offset slower activity in the Canadian operation. The Corporation continues to see increased revenues derived from the capital additions made in PNG during 2011 and early 2012.

Consolidated revenue for the fourth quarter increased 4% to \$38.6 million compared to \$37.1 million for the same quarter last year. Year to date revenues of \$146.2 million were up 15% compared to 2011. Consolidated operating margins continued to be strong at 31% for the quarter, (2011 – 35%) and 33% for 2012 year to date compared to 32% last year. The margins benefitted from the favourable returns generated during 2012 on capital invested in new rental equipment offset somewhat by lower margins during 2012 on nitrogen sales and the supply of additional personnel services in PNG carrying a lower margin.

The strong growth in revenue for the year was driven by increased activity in PNG and by the deployment of a 250K UB Unit in Canada. In PNG, the fourth quarter revenue was \$27.8 million compared to \$21.3 million in 2011, the 31% increase primarily from the growth in the matting and equipment rental business and from the start-up of a second drilling rig that went on full operating rate on November 1, 2012. Year to date revenues in PNG of \$99.0 million are up 23% for the same reasons and because of the operation of Rig 102 for all of 2012 compared to seven months in 2011.

Revenue for Canada was \$47.2 million for 2012, relatively unchanged from 2011. The fourth quarter saw significantly reduced revenue levels in the core snubbing and nitrogen businesses as both activities were softer with overall industry activity down.

In addition to the strong financial results, some of the accomplishments for the Corporation during 2012 include:

- High Arctic instituted a monthly dividend of \$0.01 per share with the first monthly dividend paid on June 14, 2012. At that monthly rate, the annual dividend would total \$6.0 million, which represents 17.2% of cash flows provided by operations during 2012.
- The Company expanded its rental business in PNG deploying additional mats, cranes and other ancillary equipment, as well as commissioning a newly built 104 person camp that was placed in use in January 2013.
- In Canada, land was acquired for a new facility in Grande Prairie with construction set to begin in 2013 as part of the strategy to grow in that region.

High Arctic continues to maintain a very strong balance sheet. At December 31, 2012, the Corporation had \$27.4 million of cash on hand, well in excess of its debt of \$13.8 million. The Corporation also continues to generate strong cash flows from its operations. For the year, High Arctic generated \$34.9 million (2011- \$29.8 million) of cash flows provided by operations, an increase of 17%. The annual Adjusted EBITDA was \$39.6 million for 2012 compared to \$33.4 million for the year ended December, 2011.

High Arctic is well positioned to take advantage of strategic growth and acquisition opportunities to enhance shareholder value, should they arise.

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Operating Results for the Three Months and Years ended December 31, 2012 and 2011

\$ millions	Three Months Ended December 31				Years Ended December 31			
	2012	2011	Change	%	2012	2011	Change	%
Revenue								
Canada	10.8	15.8	(5.0)	(32)	47.2	47.0	0.2	0
Papua New Guinea	27.8	21.3	6.5	31	99.0	80.2	18.8	23
Total Revenue	38.6	37.1	1.5	4	146.2	127.2	19.0	15
Oilfield services expense	26.5	24.0	2.5	10	98.3	86.2	12.1	14
% of Revenue	69%	65%			67%	68%		
Oilfield services operating margin	12.1	13.1	(1.0)	(8)	47.9	41.0	6.9	17
% of Revenue	31%	35%			33%	32%		
Equipment utilization in Canada	45%	54%			43%	51%		
CAODC drilling rig utilization	44%	61%			44%	61%		

Operations in Canada

Revenue for the Canadian operations in the fourth quarter of 2012 was \$10.8 million, a decrease of \$5.0 million from the \$15.8 earned during the fourth quarter of 2011. The decrease in Canadian revenue was attributable to the very weak industry activity experienced in the last three months of the year which was in contrast to the strong activity levels for the same period in 2011. Despite the softer industry activities experienced during the fourth quarter, Canadian revenues remained unchanged for 2012, demonstrating High Arctic's leadership position in high pressure and unconventional service well completions and continued demand for its services in the most active regions where operators are drilling long reach horizontal wells targeting liquids rich gas reservoirs.

Total equipment utilization for the fourth quarter of 2012 was 45% compared to 54% for the fourth quarter of 2011 and the utilization for the entire 2012 year was also lower than 2011. The sustained revenues for 2012 can be attributed to the better day rates and product mix more than offsetting the decreased utilization. Equipment utilization is determined by dividing the number of twelve hour days a unit operates by the total number of days in the relevant period.

The Corporation's largest business line in Canada is its stand alone snubbing services which accounted for revenue of \$7.6 million in the fourth quarter (\$9.8 million in Q4 of 2011). Utilization rates for the Stand Alone snubbing units for the quarter ended December 31, 2012 were 30% as compared to 40% for the same period in 2011. Day rate improvements helped to offset the decreased utilization.

The second largest Canadian product line is the supply of nitrogen, primarily for down hole use, often supplied as part of the snubbing activities. Nitrogen revenue was \$2.9 million in the fourth quarter of 2012 compared to \$5.0 million in the fourth quarter of 2011. The drop was attributable to the reduced activity levels and the accompanying pricing pressures. Utilization for the fourth quarter was 63% compared to 81% in 2011 due to the reduced activity levels experienced in the entire oilpatch during the period.

High Arctic has seen an easing in the shortage of experienced field personnel from the last year but retaining crews continues to be a challenge, particularly during slower periods as the crews are paid on a day rate basis. Retention of experienced personnel will continue to be a key focus.

The Corporation has three 250K UB units that have seen limited activity during the past few years. In the second quarter, one of the units was refurbished and commenced work as part of a plan to demonstrate their ability to multi-stage complete the longer horizontal wells that can extend beyond 6000 meters. The unit was active through much of the third quarter until mid-

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September. The work program was considered a success, though future work will likely not materialize until the summer of 2013. The Corporation is also examining the market for the 250K UB units for other specialized applications such as SAGD wells and possible applications in the oil shale plays in the United States.

Operations in PNG

Revenue for the PNG operations in the fourth quarter of 2012 was \$27.8 million; 31% higher compared to the fourth quarter of 2011. The increase in revenue for the quarter was largely related to the additional revenue attributable to the start-up of a second active drilling rig resulting in fourth quarter revenue of \$7.1 million for Rig 103 compared to \$2.9 million in Q4 of 2011 during which Rig 103 was warm stacked. In addition, revenue increased due to the matting and equipment rentals fleet additions placed in service during 2012.

Revenue for the PNG operations in 2012 was up \$18.8 million, or 23% to \$99.0 million (2011 - \$80.2). Rig 102 operated throughout 2012 compared to less than seven months in 2011, accounting for \$5.5 million of the increase. The revenue attributable to the rental fleet increased by \$6.2 million, or 48% to \$19.1 million for the year due primarily to the addition of new rental equipment in 2011 and early 2012. The balance of the increase was attributable to the drilling rigs and supply of base camp personnel. High Arctic actively operated two full drilling rigs through most of the first half in 2011 compared to only the equivalent of three months in 2012. However, in 2012, the two drilling rigs operated on a leap frog basis to provide for more efficient utilization of resources, resulting in more overall activity. The US\$ was substantially at parity in each year.

Our main customer in PNG owns two heli-portable rigs (Rigs 103 and 104) that are currently managed and operated by High Arctic under operating leases. Revenue includes amounts related to the recovery of lease related costs. An equivalent lease cost is included under oilfield services expense. The lease amounts are significant with revenues and expenses each reflecting annual amounts of US\$25.9 million in 2012 and US\$22.1 million in 2011. High Arctic also owns a hydraulic workover rig (Rig 102) and drilling support equipment that it contracts to that customer. Both Rig 103 and Rig 104 and the related drilling support services are contracted until December 2013. The contract term for High Arctic's Rig 102 runs until May 2014. The number one priority for 2013 is to sign extensions for the main PNG contracts.

Our main PNG customer's drilling program throughout the first nine months of 2012 was equivalent to a one drilling rig program. During that time, Rigs 103 and 104 each drilled well locations with the drilling crews always working on the rig actively drilling while a much smaller crew moved the non-active rig to the next well site. The non-active rig earns a much lower day rate that reflects the limited crews and is referred to as a leap frog rig. A full two rig drilling program started in the fourth quarter of 2012 at which time High Arctic added a second drilling crew with the full operating rate starting on November 1. High Arctic has been notified that the operation will revert to a one rig program in April, 2013. It is expected that Rig 103 and 104 will then operate on a leap frog basis for the balance of 2013, with the size of the leap frog crew and the required base camp personnel currently under negotiation. Comparatively, during most of the first half of 2011, a two rig drilling operation was in effect with Rig 104 operating for our primary customer and Rig 103 activity shared with two different operators and Rig 103 was warm stacked for the second half of 2011.

Rig 102 was active throughout 2012, while during 2011 it was active for less than seven months as it commenced operations in June 2011 following a significant upgrade. Indications from our customer are that Rig 102 will continue its workover program well into 2013 and possibly for the full year. Revenue from Rig 102 for the fourth quarter was \$3.1 million in 2012 (\$3.1 million in Q4 2011) and for all of 2012 was \$12.2 million (2011 - \$6.7million).

Revenue from PNG's matting and equipment rental business increased significantly in 2012 compared to 2011. Approximately \$10.0 million was invested in the expansion of the PNG equipment rental business in 2011 and an additional \$11.4 million was invested in 2012. Overall, revenue from the rental fleet increased by \$6.2 million for the total year to \$19.1 million. A significant portion of PNG's rental fleet consists of Dura-Base® mats, of which High Arctic had 7,000 mats earning revenue at December 31, 2012. On hand stock consists of 360 mats and an additional 504 have been ordered and are expected to begin earning revenue in the second quarter of 2013.

Oilfield Services Expenses and Oilfield Services Operating Margins

Oilfield services expense includes both fixed and variable costs that, in total, do not increase or decrease by the same proportion as changes in revenue and activity levels. The 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, on a consolidated basis, was 67% for 2012, a slight decrease from 68% from 2011. Expenses increased in proportion to the increase in revenue and the operating margins were similar in both years (2012 - 33%; 2011 - 32%). The margin percentage in 2012 was favourably impacted by a greater share of revenue in PNG

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being earned from rental equipment with higher operating margins. Offsetting that effect was an increase in the rig lease revenue in PNG on which no margin is earned, particularly in the fourth quarter when two rigs were fully operational, and an increase in personnel services on which a smaller margin is earned. In Canada, higher day rates were offset by increases in wages and other operating costs. In addition, the soft fourth quarter activity levels hurt the margins in Canada due to the fixed cost component and ramping up for expected higher activity levels.

On an annual basis, the oilfield service operating margin improved to \$47.9 million, or 33% of revenue, compared to \$41.0 million (32% of revenue) for 2011. The improvement in the margin percentage was driven by a number of factors. The rate increases in Canada for snubbing and nitrogen services and stronger activity levels in the first three quarters helped margins. In PNG, Rig 102 has higher margins than Rig 103 or 104 as the Corporation does not incur lease charges on Rig 102. Therefore, the margins improved due to Rig 102 operating for the full year in 2012 and less than seven months in 2011. In addition, the expansion of the higher margin matting and equipment rental business improved the overall margin percentage for 2012.

In light of the softer activity levels in Canada, management will continue to monitor oilfield service expenses and respond accordingly if activity drops, though margins tend to drop with activity as fixed costs cannot be easily reduced.

Selected Expense Information

General and Administration

	Three Months Ended December 31			Years Ended December 31		
	2012	2011	Change	2012	2011	Change
\$ millions						
General and administration	2.1	1.9	0.2	8.3	7.6	0.7
% of Revenue	5%	5%		6%	6%	

General and administration expenses (G&A) for the year and fourth quarter were unchanged as a percentage of revenues but increased by 9% year to date. The increases are attributable to a higher personnel count associated with greater activity and some inflationary pressures. In addition, professional fees of \$0.3 million were accrued for foreign operation legal matters.

Share-based Compensation

	Three Months Ended December 31			Years Ended December 31		
	2012	2011	Change	2012	2011	Change
\$ millions						
Share-based compensation	0.1	0.5	(0.4)	1.4	2.8	(1.4)
% of Revenue	0.3%	1%		1%	2%	

Share-based compensation expense of \$1.4 million for the year is the result of a \$0.9 million expense related to the executive and director share incentive plan and \$0.5 million of share-based compensation expense for the stock option plan, both approximately half of 2011. The higher amount reported for 2011 was attributable to the formula used to amortize the calculated benefit amount over the vesting period.

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Amortization

	Three Months Ended December 31			Years Ended December 31		
	2012	2011	Change	2012	2011	Change
\$ millions						
Amortization	2.7	2.2	0.5	9.7	8.7	1.0
% of Revenue	7%	6%		7%	7%	

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

Gain on Sale of Investments

	Three Months Ended December 31			Years Ended December 31		
	2012	2011	Change	2012	2011	Change
\$ millions						
Gain on sale of investments	-	-	-	-	2.0	(2.0)

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

Foreign Exchange Loss (Gain)

	Three Months Ended December 31			Years Ended December 31		
	2012	2011	Change	2012	2011	Change
\$ millions						
Foreign exchange loss (gain)	0.1	(0.3)	0.4	-	0.6	(0.6)

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 recognized in other comprehensive income as cumulative translation adjustments. However, gains and losses recorded by the Canadian parent on its U.S. dollar cash accounts and on any U.S. dollar denominated intercompany balances must be recognized in the statement of operations while the offsetting amount on the intercompany balances recorded for the foreign subsidiary is recorded as a cumulative translation adjustment. Such gains and losses are non-cash items as they are purely intercompany offsetting amounts. For the reported periods, the U.S. dollar was fairly stable relative to the Canadian dollar resulting in relatively small gains and losses.

Interest and Finance Expense

	Three Months Ended December 31			Years Ended December 31		
	2012	2011	Change	2012	2011	Change
\$ millions						
Interest and finance expense	0.2	0.4	(0.2)	1.0	1.9	(0.9)
% of Revenue	1%	1%		1%	1%	

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The principal amount of the senior debt was \$13.8 million at December 31, 2012 compared to \$17.5 million at December 31, 2011. The interest rate applicable to the senior debt is based on the prime rate plus a spread. The higher interest expense reported for the 2011 reflects the higher outstanding principal amount and higher interest rate in effect prior to entering a new credit facility in May, 2011. The Corporation offsets interest income earned on its cash balances against the reported expense.

Income Taxes

\$ millions	Three Months Ended December 31			Years Ended December 31		
	2012	2011	Change	2012	2011	Change
Income taxes – current expense	1.0	0.6	0.4	3.7	3.1	0.6
Income taxes – deferred expense (recovery)	-	-	-	(5.0)	0.3	(5.3)

The current income tax expense primarily relates to current taxes payable in PNG.

As at December 31, 2012 a deferred tax asset of \$5.0 million (2011 – nil) was recognized based on the probability that the Corporation will generate taxable income in the future. The deductible temporary differences for which no benefit has been booked that relate to the available Canadian tax pools are as follows:

	2012	2011
Property and equipment	9.8	19.0
Non- capital losses	71.8	93.7
Capital losses	5.4	5.4
Financing costs	4.1	5.2
Total	91.1	123.3

Earnings retained by subsidiaries that may be subject to dividend withholding taxes in the country of origin upon repatriation amounted to \$51.7 million as at December 31, 2012. 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 Company controls the relevant entities and has no committed plans to remit the earnings in the foreseeable future.

At December 31, 2012, the Canadian non-capital losses carried forward for income tax purposes was \$91.8 million (2011 – \$93.7 million) which expire in years 2024 through 2031. Also at December 31, 2012, the Canadian capital losses carried forward for income tax purposes was \$5.4 million (2011 – \$5.4 million) which can be carried forward indefinitely but only used against capital gains. The Corporation has the ability to file amended tax returns to adjust certain discretionary deductions to mitigate the risk of expiring loss carry forwards. The Corporation is not currently taxable in Canada and does not expect to be taxable in Canada for the foreseeable future as a result of its available tax pools.

Outstanding Share Data

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

As at December 31, 2012, there were 49,805,322 issued and outstanding common shares. That number includes 1,810,000 shares held in the Executive and Director Share Incentive Plan (*see Note 12 of the Financial Statements*) that have not yet vested and which may be cancelled under certain circumstances related to a three year vesting period. As of the date of this MD&A, there were 49,822,822 issued and outstanding common shares including 1,790,000 unvested shares held in the Executive and Director Share Incentive Plan.

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As at December 31, 2012, there were 1,204,800 options outstanding to acquire common shares of the Corporation at an average exercise price of \$1.29 per share. As of the date of this MD&A, there are 1,167,300 options outstanding at an average exercise price of \$1.30 per share.

The Corporation's common shares trade on the Toronto Stock Exchange under the symbol HWO. The closing price of the shares on March 12, 2013 was \$2.27 per share. Based upon the issued common shares on that date of 49,822,822, the Corporation has an approximate market capitalization of \$113.1 million.

Liquidity and Capital Resources

Selected Capitalization Data:

\$ millions except financial ratios	December 31, 2012	December 31, 2011	Change
Current assets ⁽¹⁾	52.2	40.8	11.4
Current liabilities ⁽²⁾	15.6	11.7	3.9
Operating working capital ⁽³⁾	36.6	29.1	7.5
Operating working capital ratio ⁽⁴⁾	3.3	3.5	(0.2)
Total debt (including current portion)	13.8	17.5	(3.7)
Total debt-to-capitalization ratio ⁽⁵⁾	0.13	0.22	(0.9)
Cash and cash equivalents	27.4	16.5	10.9
Net cash (net debt) ⁽⁶⁾	13.6	(1.0)	14.6

Notes:

- (1) Calculated as all current assets.
(2) Calculated as current liabilities excluding the current portion of long-term debt.
(3) Calculated as current assets (as defined above) less current liabilities (as defined above).
(4) Calculated as current assets (as defined above) divided by current liabilities (as defined above).
(5) Calculated as total debt divided by the sum of total debt and shareholders' equity.
(6) Net cash (net debt) is calculated as the amount which cash and cash equivalents exceeds (is exceeded by) 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 0.35 at December 31, 2012 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) out of which up to \$35 million may be drawn on a revolving basis, subject to the applicable borrowing base margin requirements.

The Corporation generated net cash from operating activities before working capital adjustments of \$8.4 million and \$34.6 million for the three months and year ended December 31, 2012, respectively, compared to \$10.9 million and \$30.0 million for the three months and year ended December 31, 2011. The cash balance and available undrawn credit facilities provide adequate liquidity to meet the Corporation's expected operating needs. The Corporation had a cash balance of \$27.4 million as at December 31, 2012, much of which is targeted for capital expenditures and believes it has sufficient cash to meet its cash needs for the foreseeable future.

Long Term Debt

Effective October 1, 2012, the Corporation completed an extension and amendment of its credit facilities. The main components of the credit facilities are a \$30 million revolving loan and a \$5 million revolving operating loan. The maturity date of both main components is August 31, 2014. The credit facilities are secured by all of the assets of High Arctic and by guarantees given by its material foreign subsidiaries.

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The credit facilities permit borrowing in Canadian or US dollars and contain 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%. This rate represents a reduction of 75 basis points from the rate applicable to the capital loan that was refinanced with the new revolving loan. A standby fee of 35 basis points continues to be charged on any undrawn portion of the debt.

The revolving loan facility can be drawn based on a specified percentage of the book value of High Arctic's Canadian fixed assets.

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

As at December 31, 2012, the Corporation had long term debt of \$13.8 million, leaving \$21.2 million of undrawn revolving capacity. The new revolving facility does not require principal repayments prior to maturity so the entire amount is classified as long term at December 31, 2012. The cash and cash equivalents at December 31, 2012 exceeded total debt by \$13.6 million. The new credit facility is subject to the following financial covenants calculated at the end of each fiscal quarter:

Ratio	Threshold	Ratio December 31, 2012
Funded Debt to EBITDA ⁽¹⁾	2.50:1 Maximum	0.35:1
Debt to Tangible Net Worth ⁽²⁾	2.50:1 Maximum	0.33:1
Current Ratio ⁽³⁾	1.50:1 Minimum	3.35:1
Fixed Charge Coverage Ratio ⁽⁴⁾	1.25:1 Minimum	4.45:1

- (1) Funded Debt to EBITDA means the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing 4 quarters. Funded Debt is defined generally as indebtedness and liabilities which constitute debt in accordance with IFRS but excluding accounts payable, other short-term non-interest bearing liabilities and future income taxes. EBITDA is defined generally as net Income plus interest expense, cash taxes payable, depreciation, amortization, future income taxes, stock based compensation and deducting gains from the sale of assets, all calculated on a consolidated basis.
- (2) Debt to Tangible Net Worth means the ratio of total liabilities less postponed loans and subordinated debt and future income tax liabilities to shareholders' equity less intangible assets, deferred charges and shareholder advances.
- (3) Current Ratio means, the ratio of consolidated current assets to consolidated net current liabilities (excluding the current portion of long term debt and other debt, if any).
- (4) Fixed Charge Coverage Ratio is defined as EBITDA less cash taxes, dividends and unfunded capital expenditures divided by the total of principal payments on long term debt (which is deemed to be \$6.0 million per annum as per the credit agreement) and capital leases plus interest, all calculated on a consolidated basis for the trailing 4 quarters. Most of the capital expenditures for the year ended December 31, 2012 are considered as funded under the terms of the loan agreement.

Cash Flow

Operating Activities

Cash flow provided by operations in the three months and year ended December 31, 2012 was \$8.7 million and \$34.9 million, respectively, compared to \$10.7 million and \$29.8 million for the three months and year ended December 31, 2011. After working capital adjustments, net cash generated from operating activities during the fourth quarter of 2012 was \$10.2 million compared to \$10.8 million in the fourth quarter of 2011 and \$38.0 million and \$25.2 million for the years ending December 31, 2012 and 2011, respectively. The changes in working capital for the fourth quarter and full year of 2012 are considered normal, reflecting the growth in business. 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.

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Investing Activities

For the three months and year ended December 31, 2012, capital expenditures were \$2.9 million and \$19.9 million, respectively, compared to capital expenditures of \$1.3 million and \$14.8 million for the three months and year ended December 31, 2011. Most of the capital expenditures in the fourth quarter and the total year were directed at upgrades for the Canadian Stand-Alone fleet and for continued expansion of PNG's rental equipment fleet including a new rig camp ordered during the third quarter. In November, 2012, the Corporation spent \$1.2 million to acquire land upon which new facilities will be constructed for its Grande Prairie operations in Alberta.

Financing Activities

Dividends

On May 17, 2012, the Corporation instituted a dividend policy and the first monthly dividend of \$0.01 per common share (including the restricted shares) was paid on June 14, 2012. Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. During the year ended December 31, 2012, the Corporation declared dividends of \$4.0 million, of which \$0.5 million was payable as of the year end. To the date of this MD&A, dividends totalling \$0.03 per common share have been declared for 2013.

Normal Course Issuer Bid

On March 21, 2012, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 5 percent of the Corporation's issued and outstanding common shares under a Normal Course Issuer Bid (the "Bid"). The Corporation may purchase up to 2,418,013 common shares for cancellation subject to a daily purchase limit of 6,248 common shares. The Bid commenced on March 23, 2012 and will terminate on March 22, 2013 or such earlier time as the Bid is completed or terminated at the option of the Corporation. As at December 31, 2012, a total of 285,380 common shares have been purchased and cancelled pursuant to the Bid at a cost of \$0.5 million. No shares have been acquired in 2013 pursuant to the Bid as of the date of this MD&A.

Loans Due from Related Parties

During 2012, the Corporation received \$0.4 million on the repayment of executive loans (see Related Party Transactions below).

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	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011
Revenue	38.6	35.8	29.6	42.2	37.1	29.3	24.9	35.9
Adjusted EBITDA	10.0	10.1	5.2	14.3	11.2	7.8	3.9	10.5
Net earnings (loss)	5.9	6.5	5.7	10.7	7.8	3.0	(0.1)	7.3
per share (basic)	\$0.12	\$0.13	\$0.13	\$0.23	\$0.17	\$0.07	\$(0.01)	\$0.17
per share (diluted)	\$0.12	\$0.12	\$0.13	\$0.22	\$0.16	\$0.06	\$(0.00)	\$0.15

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.

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Industry Indicators and Market Trends

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

Average for the period	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil and natural gas prices								
West Texas Intermediate (US \$ /bbl)	\$88	\$92	\$93	\$103	\$94	\$90	\$102	\$94
Brent Crude (US \$/bbl)	\$110	\$109	\$109	\$119	\$109	\$112	\$117	\$105
AECO (C\$ /Mcf)	\$3.22	\$2.30	\$1.83	\$2.52	\$3.47	\$3.72	\$3.74	\$3.77
Other industry indicators								
Well completions in Western Canada ⁽¹⁾	3,687	2,835	2,107	3,121	4,621	3,861	3,323	4,276
Gas well completions in Western Canada ⁽¹⁾	489	388	346	632	1,009	803	980	1,660
Active drilling rigs in Western Canada ⁽¹⁾	363	338	178	540	489	454	190	534
Average drilling rig utilization rates ⁽¹⁾	44%	42%	22%	68%	61%	57%	24%	68%
US\$ per Canadian\$ exchange rate	1.01	1.01	0.99	1.00	0.98	1.02	1.03	1.02

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

Increases or decreases in the price of oil and natural gas can materially impact spending on drilling and well completion activities. High Arctic's business activity depends on the overall drilling and well completion activity in the industry and therefore on the level of spending by oil and gas companies. The Canadian oilfield services sector is cyclical and is significantly affected by the activity levels of exploration and production companies.

During the fourth quarter of 2012, North American oil prices were at their lowest level for the past two years. However, the trend to more field activity being directed at oil projects should continue given the relative strength of the prices. Natural gas prices have continued to remain weak and may not materially improve in the near term due to high storage levels and available supply. The AECO reference natural gas price averaged only \$2.30 per Mcf in 2012 compared to \$3.72 last year. High Arctic's Canadian activity levels are tied more closely to gas drilling activity and the associated well completions. The weakness in natural gas prices has led Canadian producers to focus on liquids rich natural gas developments as the associated liquids or condensates, such as ethane, butane and propane, typically attract prices tied to oil prices making them attractive at current oil prices. This trend to target the liquids rich areas is expected to continue as long as oil prices remain at or near their current levels. In addition, Asian energy companies are increasingly investing in Canada, providing needed capital, long term outlooks and encouraging LNG deliveries into Asian markets.

During 2012, the industry experienced year over year drops in the number of well completions with the trend most visible in gas wells. The effect has been muted by the increase in the complexity and depth of the wells that is leading to more time being spent on the completion of each well. Most forecasts are predicting that softer commodity prices and overall economic outlook will lead to reduced industry activity in 2013, with the degree of reduction still very much unknown. At the end of December, 2012, the active rig count in western Canada was 256 compared to 369 in 2011, indicative of the drop in the active rig count of late and indicative of the challenges facing the services sector in 2013.

Despite the drop in the number of gas well completions, High Arctic's overall revenue in 2012 matched that of 2011. High Arctic has improved or maintained its market share in terms of overall natural gas well completions and has benefited from the

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trend to longer reach horizontal wells as the Corporation's services are in demand for completion of horizontal wells using multi-stage completion techniques that are the primary driver of current activity levels.

The Corporation's PNG activity is based on longer term contracts and thus is less affected in the short term by the volatility of oil and gas prices. These contracts are denominated in U.S. dollars. The U.S./Canadian dollar exchange rate has been stable the past two years with the US dollar trading at a slight discount throughout the second half of 2012 while the Corporation benefits when the US dollar is at a premium to the Canadian dollar. Overall, the US dollar has been up modestly in 2012 compared to 2011 which had a slightly positive impact on the financial results for PNG as compared to 2011.

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

Outlook

Activity levels in the Western Canadian Sedimentary Basin ('WCSB') may continue to see year over year declines in the first half of 2013 due to persistent weak natural gas prices and transportation bottlenecks for Alberta crude oil. With commodity prices not forecasted to materially improve in 2013, capital spending by exploration and development companies will likely be reduced from the levels seen in the first half of 2012.

The start of the 2013 winter drilling season in the WCSB saw drilling rig activity levels down approximately 10% from the start of the 2012 season, improving to a 4% reduction from the prior year by the end of February 2013. High Arctic in turn has also experienced year over year activity level reductions at the start of 2013. The impact of the slower drilling activity will likely be somewhat mitigated by the continued industry transition to longer reach horizontal wells with multi-stage completions that often require snubbing services. Liquids rich gas play development is expected to continue at reasonable levels and be the primary driver for High Arctic's business. The activity in the Duvernay, Montney and other deep basin plays in northwest Alberta and northeast British Columbia are expected to remain stronger than other regions as producers focus on the reservoirs offering the highest liquids content. High Arctic will continue its efforts to increase the proportion of its work conducted on oil wells where snubbing is needed on higher pressure wells.

Deploying High Arctic's 250K UB units is part of the strategy in 2013 to increase the Canadian revenue, which has been challenging in the past as the demand for the rigs has been limited by the number of wells needing their high pushing capacity. The longer horizontal multi-stage fracturing techniques create new opportunities for these rigs as the horizontal well lengths are now exceeding 6000 meters and the longer horizontal lengths strain the capacity of coiled tubing. Each of High Arctic's three 250K UB units have a large push and pull capability and high torque rotary drive and are not constrained by the length of a coil spool, thus providing a possible opportunity to extend the lateral length. The Corporation is actively marketing these units as a completions solution for oil and natural gas exploration and production companies.

The PNG LNG project is on schedule to deliver first gas towards the end of 2014 and this continues to be the focus of our main customer and their partners in the facility. The capital demands of that project may reduce the capital available for drilling in 2013. As a result, High Arctic expects to return to a one drilling rig operation in April 2013 and may see some reduction in utilisation of its equipment rental fleet. It is currently forecasted that Rigs 103 and 104 will operate on a leapfrog basis for the balance of 2013. We do not anticipate any drilling opportunities with other operators in 2013. Rig 102 should operate at least through September 2013 and hopefully through the full year. We have begun discussions with our lead customer on the long term contract renewals and hope to conclude these well before they expire in December 2013. Early indications are positive and reflect the strong strategic partnership we have formed with them. Some cost reductions may be required by our customer in 2013 because of the lower activity, which will primarily be accomplished through personnel reductions and some cutbacks in rental equipment.

During the past two years, the Corporation has been able to significantly grow its equipment rental business in PNG that now serves an increasing breadth of customers. In January 2013 we deployed a new heli-portable 104 person camp that we constructed as part of the 2012 capital spending program, and which will provide incremental revenue in 2013. Additional rig matting and cranes went on contract in late 2012 and High Arctic should receive a full year of revenue from those additions in 2013. The matting rental business has expanded significantly over the past two years, exiting 2012 with approximately 7,000 mats in the country, substantially all of which are under contract. The Corporation will continue to pursue opportunities to expand this business line and increase our rental fleet. However, the anticipated slower drilling activity in 2013 by our primary

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customer, as well as other operators in PNG, will reduce demand for new rental equipment in 2013. Our focus will be on reducing administration costs, keeping existing equipment deployed and purchasing new equipment when supported by contracts, as we wait out the completion of the LNG facility.

The approved capital budget of \$32 million for 2013 includes growth capital expenditures of \$21 million, maintenance capital expenditures of \$7 million and approximately \$4 million for the building of the previously announced facility in Grande Prairie, Alberta. Included in the \$32 million is \$6 million of capital expenditures that were committed during fiscal 2012 but which had not yet been completed at year-end and are thus carried into 2013.

The growth spending in 2013 will be more heavily weighted to the operations in Papua New Guinea and will include investing in matting and other rental equipment, purchasing ancillary support equipment, such as cranes, and purchasing specialized drilling tools to increase operational efficiency. In addition to the new Grande Prairie facility, capital spending in Canada will include retrofitting some existing equipment in response to specific client requests to address certain challenges at the wellhead, as well as purchasing certain wellhead tools which will continue to differentiate the Company's service offering. Capital spending plans may be adjusted throughout the year in accordance with changes in regional market conditions or due to the ability of the Company to secure contracts with acceptable returns, particularly in PNG.

After achieving 15% revenue growth and 19% EBITDA growth in 2012 compared to 2011, and given the current market conditions outlined above, the outlook for High Arctic is for flat to modest consolidated EBITDA growth in 2013.

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 balances outstanding. The Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation has two significant customers. Services are provided to the first significant customer in Papua New Guinea. That customer represents approximately 62% of the Corporation's revenue for year ended December 31, 2012 (2011 – 48%) and 42% of its accounts receivable at that date (2011 – 30%). The second significant customer is a major Canadian exploration and production company which represents approximately 12% of the Corporation's revenue for the year ended December 31, 2012 (2011 – 10%) and 5% of the Corporation's accounts receivable at that date (2011 – 4%). The services provided to this customer are distributed within its diverse locations of operations in Canada, which management believes limits the risk of concentrating a significant portion of its revenue on this customer. Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with either customer.

Commitments and Contingencies

Accounts Receivable

The Corporation has commenced litigation against a customer with respect to collection of a receivable for services rendered outside Canada. The Corporation believes it has made an adequate provision for the possibility of non-collectable amounts. The customer has made a number of allegations and initiated a counter claim of \$5 million concerning performance issues and the cashing of the letter of credit of \$1.0 million. The Corporation has not recorded an accrual in relation to the counter claim as management believes that the counter claim is without merit.

Inventory

The Corporation has been supplied with an inventory of spare parts with a value of US \$5.5 million by a customer in Papua New Guinea. The inventory is owned by the customer and has not been recorded on the books of High Arctic. At the end of the contract, the 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.

Property and Equipment

As at December 31, 2012, the Corporation had \$5.7 million of planned expenditures for the purchase of capital assets which were not yet recorded because the assets will be delivered to the Corporation in 2013.

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Other

The Corporation has posted a performance bond of approximately US\$3.8 million in respect of a contract with a customer in the Middle East region, and would be liable if the bond was called as a result of a default by the Corporation in the performance of its obligations under the contract. The expiry date of the performance bond is March 30, 2013. Under the terms of the contract, High Arctic could be obligated to provide up to five rigs that may not be available. The Corporation has not provided any services under that contract since 2008. On September 19, 2012, High Arctic received an extension request from the customer to extend the term to March 24, 2013 under an extension option within the contract. In late October 2012, the customer requested the services of a snubbing specialist and indicated a possible need for a snubbing unit as part of its efforts to deal with a well blowout. High Arctic has challenged the validity of the extension on the basis that it was not delivered within the time limits prescribed by the contract and has taken the position the contract ended on August 31, 2012. The Corporation could be liable for contractual damages if the contract is determined to be valid and is at risk for a draw on all or a portion of the performance bond regardless of the merits. No amount has been accrued for the possible contractual damages as management does not believe there has been any performance default.

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 fair value amounts as at December 31, 2012:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	14.6	-	-	-	14.6
Dividends payable	0.5				0.5
Long-term debt and related charges	0.6	14.2	-	-	14.8
Total	15.7	14.2	-	-	29.9

Lease Obligations

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

The minimum lease payments for the next five years as at December 31, 2012 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	0.6	0.5	-	-	1.1
Total lease commitments	0.6	0.5	-	-	1.1

Grande Prairie Building

In 2012, the Corporation signed a contract in the amount of \$3.0 million to construct new premises in 2013 for its Grande Prairie offices and facilities. Additional ancillary costs of approximately \$0.8 million are anticipated to be incurred in 2013 to complete the premises.

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Risk Management and Uncertainties

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

- volatility in global supply and demand and market prices for oil and natural gas and the effect of these volatilities on the demand for oilfield services generally;
- uncertainties in weather affecting the duration of the service periods and the activities that can be completed, including the seasonality that affects industry activity in Canada;
- reduction in industry activity levels in western Canada, primarily due to a recent period of lower natural gas prices (see above);
- changes in legislation and the regulatory environment, including uncertainties with respect to implementing environmental initiatives;
- alternatives to and changing demands for petroleum products;
- the worldwide demand for oilfield services in connection with the workover and completion of oil and gas wells;
- general economic conditions in Canada, the United States and Southeast Asia including variations in currency exchange rates and interest rates;
- liabilities and risks inherent in oil and gas operations, including environmental liabilities and risks arising below ground surface;
- credit risks associated with customers in the oil and gas industry, including the inability of a significant customer to pay for goods and services that have been provided;
- risks inherent in foreign operations, including political and economic risk and the risk of foreign currency controls that could restrict the transfer of funds in or out of countries in which the Corporation operates or result in the imposition of taxes on such transfers; and
- regional and international competition.

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

The Corporation is also subject to specific risks.

Financing Risk

The Corporation is exposed to risk associated with access to equity capital and debt financing required for business needs and to repay existing debt financing 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.

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Customer Concentration

Please refer to "Customer Concentration" section above.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk as its long term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. For the three months and year ended December 31, 2012, 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 and by \$0.1 million, respectively, (\$0.1 million and \$0.2 million for the three months and year ended December 31, 2011).

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 Company 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 Company 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 year ended December 31, 2012, a 1% nominal change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a \$0.3 million (2011 - \$0.2 million) change in other comprehensive income as a result of changes in foreign exchange.

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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 in Canada and elsewhere. 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

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

Allowance for doubtful accounts

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

Amortization

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

Impairment of property and equipment

Property and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Income taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. The Corporation's calculation of income taxes involves many complex factors as well as the Corporation's interpretation of relevant tax legislation and regulations. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available

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against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share-based compensation

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

Related Party Transactions

In April, 2011 High Arctic made loans to certain directors and officers of the Corporation in the total aggregate amount of \$1.1 million. The purpose of the loans was to assist the directors and officers with the payment of Canadian income taxes arising on the issuance of common shares of the Corporation under the Corporation's Executive and Director Share Incentive Plan. The principal amount of each loan bears interest at an annual rate of 2%. Each loan is fully payable on the earlier of (i) thirty days after the date that a Borrower ceases to be an employee or director of the Corporation and (ii) April 15, 2014. As at December 31, 2012, the amount outstanding related to these loans was \$0.4 million (2011 - \$0.8million).

Future Accounting Policies

There are no IFRS or IFRIC interpretations that are effective for the first time for the fiscal year beginning on or after January 1, 2013 that would be expected to have a material impact on the Corporation.

At the date of this MD&A, the IASB and the IFRS Interpretations Committee (IFRIC) have issued the following new and revised standards and interpretations which are not yet effective for the relevant reporting periods. The Corporation has not early adopted these standards, amendments or interpretations, however the Corporation is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements.

Amendment to IFRS 7, 'Financial instruments: Disclosures' on derecognition

This amendment promotes transparency in the reporting of transfer transactions and improves users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. This amendment is effective for fiscal periods beginning on or after January 1, 2013. In conjunction with the transition from IAS 39 to IFRS 9 for fiscal years beginning on or after January 1, 2015, IFRS 7 will also be amended to require additional disclosure in the year of transition.

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income

The amendment requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). This amendment is effective for fiscal periods beginning on or after July 1, 2012.

Amendment to IAS 32, 'Financial instruments: Presentation'

The amendment clarifies the requirements for offsetting financial assets and liabilities. Specifically, the amendment clarifies that the right to offset must be available on the current date and cannot be contingent on a future event. This amendment is effective for fiscal periods beginning on or after January 1, 2014.

IFRS 9, 'Financial instruments'

IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. This standard is effective for fiscal periods beginning on or after January 1, 2015.

IFRS 10, 'Consolidated financial statements'

IFRS 10 defines the principle of control, establishes control as the basis for consolidation, sets out how to apply the principle of control and prescribes the accounting requirements for the preparation of consolidated financial statements. This standard is effective for fiscal periods beginning on or after January 1, 2013.

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IFRS 13, 'Fair value measurement'

IFRS 13 defines fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. This standard is effective for fiscal periods beginning on or after January 1, 2013.

Other standards and interpretations issued or amended which are not yet effective for the relevant reporting periods include:

New standards

IFRS 11, 'Joint arrangements'	January 1, 2013
IFRS 12, 'Disclosure of interests in other entities'	January 1, 2013
IFRIC 20, 'Stripping costs in the production phase of a surface mine'	January 1, 2013

Effective for fiscal years beginning on or after:

Amendments to existing standards

IAS 19, 'Employee benefits'	January 1, 2013
IAS 27, 'Separate financial statements'	January 1, 2013
IAS 28, 'Investments in associates and joint ventures'	January 1, 2013

Effective for fiscal years beginning on or after:

Disclosure Controls and Procedure

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

Internal Controls Over Financial Reporting

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

Management is responsible for designing ICFR, under the supervision of the CEO and CFO. Management, under the supervision of the CEO and CFO, evaluated the effectiveness of ICFR at December 31, 2012. Based on this evaluation, the Company's CEO and CFO have concluded that ICFR was effective at December 31, 2012. No changes were made to ICFR during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, ICFR.

It should be noted that a control system, including the Company'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 Company'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.