High Arctic Energy Services Inc.
Management Discussion and Analysis
For the Years Ended December 31, 2011 and 2010

The following Management Discussion and Analysis ("MD&A") of High Arctic Energy Services Inc. (the "Company" or "High Arctic") should be read in conjunction with (i) the consolidated financial statements of High Arctic, and the notes thereto, for the years ended December 31, 2011 and 2010 (the "Financial Statements"), (ii) the consolidated financial statements of High Arctic and notes thereto and MD&A for the year ended December 31, 2010, (iii) the most recently filed Annual information Form of High Arctic and (iv) the unaudited consolidated interim financial statements of High Arctic and the notes thereto and MD&A for the quarters ending March 31, 2011, June 30, 2011 and September 30, 2011. This information is available at SEDAR (www.sedar.com).

Forward-Looking Statements

This MD&A contains forward-looking statements. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions are intended to identify forward-looking statements. Such statements reflect the Company's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to vary from those described in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this MD&A include, among others, statements pertaining to the following: general economic and business conditions which will, among other things impact demand for and market prices for the Company's services; expectations regarding the Company's ability to raise capital and manage its debt obligations; commodity prices and the impact that they have on industry activity; estimated capital expenditure programs for fiscal 2012 and subsequent periods; projections of market prices and costs; factors upon which the Company will decide whether or not to undertake a specific course of operational action or expansion; treatment under governmental regulatory regimes and political uncertainty and civil unrest. With respect to forward-looking statements contained in this MD&A, the Company has made assumptions regarding, among other things, its ability to: obtain equity and debt financing on satisfactory terms; market successfully to current and new customers; obtain equipment from suppliers; construct property and equipment according to anticipated schedules and budgets; remain competitive in all of its operations; and attract and retain skilled employees.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and elsewhere in this MD&A, along with the risk factors set out in the Annual Information Form for the year ended December 31, 2010, filed on SEDAR at www.sedar.com.

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

This MD&A is dated March 19, 2012.

Corporate Profile

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

The Canadian operation is focused on the provision of snubbing services and the supply of nitrogen to a large number of oil and natural gas exploration and production companies operating in Western Canada. The Company's fleet of equipment in Canada at December 31, 2011 included 21 snubbing units, 10 nitrogen pumpers, 5 nitrogen transports and 3 rack and pinion underbalanced work-over units which operate primarily in the spot market on a well by well basis. High Arctic has a large operation in Papua New Guinea where it provides contract drilling, specialized well completion services and supplies rig matting, camps and drilling support equipment on a rental basis. The Company owns and operates the only heli-portable hydraulic workover rig in PNG and is contracted to operate up to three heli-portable drilling rigs owned by a large oil and gas company. Services in PNG are generally provided under term contracts ranging from 6 months to 3 years.

Selected Comparative Financial Information

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

$ millions (except per share amounts)	Year Ended December 31			
	2011	**2010**	**Change**	**% Change**
Revenue	**127.2**	**119.3**	**7.9**	**6.6**
EBITDA[(1)]	**32.0**	**31.4**	**0.6**	**1.9**
Adjusted EBITDA[(1)]	**33.4**	**33.3**	**0.1**	**0.3**
Operating earnings from continuing operations	**23.3**	**24.6**	**(1.3)**	**(5.3)**
Net earnings[(1)]	**18.0**	**14.5**	**3.5**	**24.1**
Per share (basic)[(2)]	0.40	0.46	(0.06)	(13.0)
Per share (diluted)[(2)]	0.37	0.46	(0.09)	(20.0)
Cash Flows provided by operations[(1)]	**30.0**	**20.2**	**9.8**	**48.5**
Capital expenditures	**13.3**	**8.2**	**5.1**	**62.2**
Net debt (end of period)[(1)]	**0.7**	**12.2**	**(11.5)**	
Shares outstanding-basic[(2)]	**45.0**	**31.8**	**13.2**	
Shares outstanding-diluted[(2)]	**48.7**	**31.8**	**16.9**	

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

(2) During July, 2011, the Company completed a consolidation of its common shares on the basis of one (1) new post consolidation common share for every five (5) pre-consolidated common shares. For comparative purposes, all per share and share outstanding information presented in the table above reflect the share consolidation as if it had occurred prior to all periods presented above.

Highlights for 2011

High Arctic generated revenue of $127.2 million, compared to $119.3 million in 2010, representing a 6.6% increase. This increase was driven by a $7.9 million, or 20.2% increase in Canadian revenue. Adjusted EBITDA was $33.4 million compared to $33.3 million in 2010.

Net earnings for 2011 of $18.0 million ($0.40 per share), increased by $3.5 million, representing an increase of 24.1% compared to $14.5 million ($0.46 per share) in 2010.

The strong performance of the Canadian operations reflects the high activity levels in the unconventional shale gas and liquid rich plays in Alberta and British Columbia and the improved day rates in Canada. In PNG, the benefit of capital investments made to expand the matting and equipment rental business combined with increased drilling rig activity associated with several new customers and the startup of the Rig 102 workover rig offset the revenue loss from the pricing concessions granted as part of the contract extensions that took effect at the start of the year.

The Company invested $13.3 million in net capital expenditures in 2011, the majority of which were expansion of PNG's matting and equipment rental business. These investments typically have higher operating margins, are supported by long-term contracts and are part of the strategy to diversify the Company's revenue base in PNG. The results are expected to have a greater positive impact in 2012 due to the full year benefit of the matting and equipment rental acquisitions. Recently negotiated pricing improvements that took effect on January 1, 2012 are also anticipated to improve the results for PNG in 2012 and are expected to offset recent wage increases.

High Arctic completed a number of strategic milestones in 2011 which provide a strong foundation for the Company moving forward.

Some of the significant accomplishments during 2011 include:

- Total debt was reduced from $36.5 million at the start of the year to $17.2 million at year end. The Company moved from a demand facility to a $30.0 million committed credit facility of which only $17.2 million was outstanding at year end. After deducting the $16.5 million of cash on hand, High Arctic exited 2011 with a net debt position of $0.7 million compared to $12.2 million as at December 31, 2010.

- In PNG, High Arctic completed the long term extensions for the drilling contracts and support services for Rig 103 and 104 that now run until December 17, 2013. In addition, it successfully started up Rig 102 in the second quarter, following a major upgrade, under a contract that runs to May, 2014.

- High Arctic was able to significantly expand its rental business in PNG as part of its strategy to diversify both its revenue sources and customer base. As an example, High Arctic was awarded its largest matting contract to date for the drilling program of a super major operator in PNG. The contract is for an 18 month term with monthly revenue expected to be approximately $400,000 or $7.2 million over the 18 month term. Most of those mats went on full contract rate in the first quarter of 2012.

- Two year extensions for first call status were negotiated with two significant producers in Canada with improvement in pricing, which is indicative of the support from our valued customers and demand for our services.

With a strong balance sheet and available credit facilities, High Arctic is well positioned to take advantage of strategic growth opportunities to enhance shareholder value. On January 31, 2012, the Company announced a $23.0 million capital budget for 2012, of which $7.0 million is maintenance capital and $16.0 million is budgeted for growth capital. These capital expenditures are anticipated to be funded from operating cash flows. These investments, in addition to the investments made in 2011 are anticipated to provide the impetus for further revenue and cash flow growth in 2012.

Operating Segment Results for the Year Ended December 31, 2011 and 2010

$ millions	Year Ended December 31 2011	2010	Change	% Change
Revenue				
Canada	47.0	39.1	7.9	20.2
Papua New Guinea and other international	80.2	80.2	-	-
Total Revenue	**127.2**	**119.3**	**7.9**	**6.6**
Oilfield services expense	**86.2**	**77.3**	**(8.9)**	**11.5**
% of Revenue	67.8%	64.8%		
Oilfield services operating margin	**41.0**	**42.0**	**(1.0)**	**(2.4)**
% of Revenue	32.2%	35.2%		
Equipment utilization in Canada	55%	54%		
CAODC drilling rig utilization	61%	41%		

Operations in Canada

Revenue for the Canadian operations of $47.0 million was 20.2%, or $7.9 million, higher than the $39.1 million in 2010. The third and fourth quarters were particularly strong, as revenue in the fourth quarter was 31.4% higher than the same quarter of last year rising from $12.1 million to $15.9 million for the quarter. The increase in Canadian revenue was attributable to improved day rates for all of its product lines, a different mix of services and expanding its ancillary service offerings. The results for 2011 in the face of weak natural gas prices demonstrate that High Arctic continues to be a leader in high pressure and unconventional service well completions and has successfully captured market share in the most active regions where operators are targeting liquids rich gas well opportunities.

Total equipment utilization for 2011 was 55% compared to 54% for 2010. 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.

A summary of equipment utilization by quarter for 2011 compared to 2010:

	Q1	Q2	Q3	Q4	Overall
2011	77%	16%	54%	64%	55%
2010	54%	29%	50%	61%	54%

As demonstrated above, utilization was higher in 2011 for each quarter compared to 2010, except for the second quarter. The well servicing industry overall in western Canada was negatively impacted by the challenging weather conditions in the second quarter as well site access and equipment mobility was severely limited due to extended road bans. Abnormally low utilization in the second quarter (typically the slowest quarter in Canada) skewed overall utilization for the year, particularly in snubbing services.

The average revenue per job increased by 22% in 2011 compared to 2010 partially because the amount of time spent per well increased 11%. This is highly indicative of the increased complexity in well design with more wells involving multi stage completions.

Added upside in revenue and utilization in snubbing and nitrogen services was available in 2011, however, the Company continued to be affected by an industry-wide shortage of experienced field personnel and could not take advantage of some opportunities during peak periods.

The Company earned minimal revenues from its 250K UB rigs during 2011. Among the challenges facing management with these rigs is the ability to secure experienced personnel to operate these rigs effectively. The Company will continue to market the 250K UB rig for the specialized applications involving the deeper shale gas wells including possible applications in the shale plays in the United States.

International Operations

The Company's activity in PNG accounted for $80.2 million in revenue for the year ended 2011, which is consistent with 2010. Pricing concessions granted to earn the contract extensions for rigs 103 and 104 reduced revenues and margins for 2011, however, growth in the matting and equipment rental business compensated for those concessions. The depreciation in the U.S. dollar also had a negative effect on results in 2011 as the U.S. dollar was worth an average of 0.99 per Canadian dollar in 2011 compared to 1.03 in 2010. All PNG contracts are U.S. dollar based. The equipment rental business comprised approximately 16% of PNG's revenue in 2011 and the Company continues to focus on expanding rentals overall share of the business.

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

Our main customer operated a one rig drilling program throughout 2010 and 2011 primarily using Rig 104 and, when logistics dictated, Rig 103 was utilized. Rig 104 was active for all of 2011 with that customer and is expected to continue to be active throughout 2012. Rig 103 commenced operations under contract with another operator in the fourth quarter of 2010 and was operational throughout the first half of 2011 during which it completed the well started in 2010 and drilled another well for a different customer. Following completion of the second well in June 2011, Rig 103 was warm stacked until the fourth quarter when it mobilized to a new drilling location for work which commenced early in 2012. However, the Rig 104 crew is being used to operate Rig 103 on that well, meaning that Rig 104 will be on a stack rate while Rig 103 is operating. Our main customer currently has plans to move to operate a two rig drilling program starting in the second half of 2012.

The upgrade of High Arctic's Rig 102 was completed in 2011 and the rig began operations on our major customer's workover program in July. The rig was active throughout the second half of 2011. By comparison, Rig 102 was stacked throughout 2010. The Rig 102 workover program is anticipated to run for at least 9 months in 2012.

Oilfield Services Expenses and Oilfield Services Operating Margins

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

Oilfield services expense as a percentage of revenue, on a consolidated basis, was 67.8% for 2011 compared to 64.8% for 2010 with the increase primarily due to higher operating costs in PNG combined with contract pricing concessions and added start-up costs on Rig 102. In addition, the Company had added repair and refurbishment costs in the Canadian operations during the second quarter as part of multi-year plan to refurbish its entire stand alone fleet.

Oilfield services operating margin for 2011 was $41.0 million, or 32.2% of revenue, compared to $42.0 million, or 35.2% of revenue for 2010. Operating margins in Canada continue to improve and were particularly strong in the fourth quarter of 2011 compared to the same quarter of last year as a result of better day rates and improved utilization. These improvements were partially offset by the additional costs and pricing concessions in PNG as previously mentioned.

Operating margins, as a percentage of revenue, are anticipated to improve in 2012 as a result of steps taken in 2011 such as implemented day rate increases in Canada and in PNG and higher margin activity related to matting and rolling stock rentals. Management continues to monitor oilfield service expenses and expects to see further wage pressures in the form of training and retention programs as the demand for qualified personnel continues to intensify.

Selected Expense Information

Selected expense information presented below is being reported on a continuing operation basis:

General and Administrative

$ millions	2011	2010	Change
General and administrative	**7.6**	**7.7**	**0.1**
% of Revenue	**6.0%**	**6.5%**	

General and administrative expenses (G&A) for 2011 were $7.6 million compared to $7.7 million for 2010 with the modest decrease due primarily to lower professional fees, facility and personnel costs. Total G&A, as a percentage of revenue, decreased to 6.0% compared to 6.5% in 2011 as a result of increasing revenue without increasing the G&A support.

Share-based Compensation

$ millions	2011	2010	Change
Share-based compensation	**2.8**	**1.9**	**0.9**
% of Revenue	**2.2%**	**1.6%**	

Share-based compensation expense of $2.8 million, or 2.2% of revenue, compared to $1.9 million, or 1.6% of revenue was primarily the result of a $2.5 million expense recognized in 2011 related to the executive and director share incentive plan compared to $1.8 million in 2010. In addition, $0.3 million of share-based compensation expense for the stock option plan was recognized for the 2011compared to $0.1 million in 2010 based on amortizing the calculated amount over the vesting period using the Black-Scholes model.

Amortization

$ millions	2011	2010	Change
Amortization	**8.7**	**7.8**	**(0.9)**
% of Revenue	**6.8%**	**6.5%**	

Amortization was $8.7 million or 6.8% of revenue compared to $7.8 million in 2010 being 6.5% of revenue. The increase was due to a combination of increased capital investment by High Arctic in 2011 generally for the acquisition of assets with shorter useful lives. Further, the amortization in 2011 included the retroactive inclusion of amortization under IFRS for the transfer of assets held for sale from current to long-term assets. Under IFRS, amortization is required to be recorded from the date the assets were originally moved to classification as held for sale until the present date. This resulted in an increase in amortization of $0.5 million for 2011 compared to last year.

Foreign Exchange Loss

$ millions	2011	2010	Change
Foreign exchange (gain) loss	**0.6**	**-**	**(0.6)**
% of Revenue	**0.5%**	**-**	

The Company has exposure to U.S. dollar revenues and expenses, primarily through its international operations, and to local currencies including the Kina in PNG and to the current assets (cash and cash equivalents) and current liabilities denominated in U.S. dollars held in Canada. The translation of foreign operations with a functional currency different from that of the Company, being primarily the U.S. dollar based operations in PNG, is translated into Canadian dollars and resulting changes are recognized in other comprehensive income as cumulative translation adjustments. However, gains and losses recorded by the Canadian parent on its U.S. dollar cash accounts and on any U.S. dollar denominated intercompany balances must be recognized in the statement of operations while the offsetting amount on the intercompany balances recorded for the foreign subsidiary is recorded as a cumulative translation adjustment. Such gains and losses are non-cash items as they are purely intercompany offsetting amounts. For 2011, the Company had net foreign exchange losses of $0.6 million compared to nil in 2010.

Interest and Finance Expenses

$ millions	2011	2010	Change
Interest and finance expense:			
Interest expense on credit facilities/long term debt	2.1	4.1	(2.0)
Interest expense on convertible debentures	-	0.9	(0.9)
Other interest expense	(0.3)	0.2	(0.5)
Financing costs	0.1	0.1	-
Total	**1.9**	**5.3**	**(3.4)**
% of Revenue	**1.5%**	**4.4%**	

The principal amount of the senior debt was $17.5 million at December 31, 2011 (prior to netting of unamortized origination costs of $0.3 million), compared to $36.5 million at December 31, 2010. The interest rate applicable to the senior debt is based on the prime rate plus a spread. The interest expense has decreased due to the decline in the average outstanding principal amount and the lower interest rates applicable to the new credit facility entered into in May, 2011 (see "Liquidity and Capital Resources -*Credit Facility*" below).

Gain on Sale of Investments

$ millions	2011	2010	Change
Gain on sale of investments	2.0	-	2.0

% of Revenue	**1.6%**	**-**

The Company 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 Company 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.

Income Taxes

$ millions	2011	2010	Change
Income taxes	3.4	6.4	3.0
% of Revenue	**2.7%**	**5.4%**	

Income tax expense primarily relates to current taxes payable in PNG. The Company is not currently taxable in Canada as a result of available tax pools. The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the income tax consequences attributable to the difference between amounts recorded in the financial statements and their respective tax bases, using a substantially enacted tax rate. The effect of any change in income tax rates on future tax assets and liabilities is recognized in earnings in the period that the change occurs. The Company has not recognized any future net benefit associated with unrecognized tax pools in Canada due to the uncertainty of the Company's ability to use those tax pools. The Company does not expect to be taxable in Canada during 2012 as a result of its available tax pools.

Outstanding Share Data

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

On June 15, 2011, the Company completed a consolidation of its common shares on the basis of one (1) new post-consolidation common share for every five (5) pre-consolidated common shares. The 252,183,147 common shares then outstanding were consolidated to 50,436,637 common shares. As at December 31, 2011 and the date hereof there were 49,620,262 issued and outstanding common shares. That number includes 3,540,000 shares held in the 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.

The Company's common shares trade on the Toronto Stock Exchange under the symbol HWO. The closing price of the shares on March 19, 2012 was $1.34 per share. Based upon the issued common shares on that date of 49,620,262, the Company has an approximate market capitalization of $66.5 million.

Liquidity and Capital Resources

Selected Capitalization Data (excluding Discontinued Operations):

$ millions except financial ratios	December 31, 2011	December 31, 2010	Change
Current assets[1]	40.8	43.4	(2.6)
Current liabilities[2]	11.7	11.6	0.1
Operating working capital[3]	29.1	31.8	(2.7)
Operating working capital ratio[4]	3.5	3.7	(0.2)
Total debt (including current portion)	17.2	36.5	(19.3)
Total debt-to-capitalization ratio[5]	0.21	0.47	0.26
Cash and cash equivalents	16.5	24.3	(7.8)
Net debt[6]	0.7	12.2	(11.5)

Notes:

(1) Calculated as current assets less the assets held for sale including assets related to discontinued operations in the Middle East.
(2) Calculated as current liabilities excluding the current portion of long-term debt and the credit facility.
(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) Calculated as Total debt less cash and cash equivalents.

The Company manages its capital structure so as to provide the capital to meet the requirements of its business and instill confidence in investors, creditors and the capital markets. The debt leverage is an important metric used by management to assess the capital structure. Management believes that the total debt-to-capitalization ratio and the debt to EBITDA ratio are well within reasonable and prudent levels. Total debt to 12-month trailing EBITDA was 0.52 at December 31, 2011 suggesting a capacity for further borrowing to provide the flexibility for growth in the business. The Company has a $30.0 million credit facility (see "Credit Facility" below) out of which up to $10.0 million is available to be drawn on a revolving basis.

The Company generated net cash from operating activities before working capital adjustments of $30.0 million during 2011 compared to $20.2 million in the 2010. The accounts payable and accounts receivable balances at December 31, 2011 are substantially all current which, together with the cash balance and available undrawn credit facilities, provide adequate liquidity to meet the Company's expected operating needs. The Company had a cash balance of $16.5 million as at December 31, 2011 and believes it has sufficient cash to meet its cash needs for the foreseeable future.

Credit Facility

The main components of the current credit facility which matures on June 30, 2013 are a $20.0 million committed capital loan with a four year amortization, a $5.0 million committed revolving evergreen loan and a $5 million demand revolving operating loan. The credit facilities are secured by all the assets of the Canadian parent and by guarantees of its foreign subsidiaries.

The capital loan is subject to interest at prime rate plus 1.75% and has a maturity date of June 30, 2013. The prime rate was 3.0% as at December 31, 2011, and has not changed since then, meaning the interest rate on the term loan is currently running at an equivalent annual rate of 4.75%. The Company is required to make quarterly principal payments on the term loan of $1.25 million at the end of each quarter and made its first payment on September 30, 2011.

The $5.0 million revolving evergreen loan can be used for the acquisition of equipment to be purchased and held in Canada. The evergreen loan requires monthly principal payments equal to 1/48th of each advance drawn on the facility commencing in the month following the month the advance is drawn. The maturity date is June 30, 2013. The interest rate for this facility is

the bank's prime interest rate plus 1.25%. As at December 31, 2011, the Company did not have any amounts drawn against the evergreen loan.

The $5.0 million demand revolving operating loan facility may be drawn to a maximum of 75% of the eligible Canadian accounts receivable, less certain priority claims, and 90% of the eligible foreign accounts receivable insured by a lender approved insurer. The annual interest rate for this facility is the bank's prime interest rate plus 1.25%. As at December 31, 2011, the Company did not have any amounts drawn against the revolving operating loan.

As at the end of December 31, 2011, only the $17.5 million (prior to the netting of debt transaction costs) capital loan was outstanding and $10.0 million of revolving capacity is available for future operations and growth. Total net debt (which is the debt after deducted cash as explained under "Financial Measures") at December 31, 2011 was $0.7 million compared to $12.2 million at December 31, 2010.

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

Ratio	Threshold	Ratio December 31, 2011
Funded Debt to EBITDA(1)	2.00:1 Maximum	0.52:1
Debt to Tangible Net Worth(2)	2.50:1 Maximum	0.48:1
Current Ratio(3)	1.50:1 Minimum	3.51:1
Fixed Charge Coverage Ratio(4)	1.25:1 Minimum	7.82:1

(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 less gains from the sale of assets, all calculated on a consolidated basis.
(2) Debt to Tangible Net Worth means the ratio of total liabilities less postponed loans and subordinated debt and future income tax liabilities to shareholders' equity less intangible assets, deferred charges and shareholder advances
(3) Current Ratio means, the ratio of consolidated current assets to consolidated net current liabilities (excluding the current portion of long term debt and other debt, if any).
(4) Fixed Charge Coverage Ratio is defined as EBITDA less cash taxes, dividends and unfunded capital expenditures divided by the total of principal payments on long term debt and capital leases plus interest, all calculated on a consolidated basis for the trailing 4 quarters. Most of the capital expenditures for 2011 are considered as funded.

Cash Flow

Cash – Operating Activities – Continuing Operations

For 2011, cash provided by operating activities was $30.0 million before reflecting working capital adjustments, compared to cash provided by operating activities before working capital adjustments of $20.2 million for 2010. After working capital adjustments, net cash generated from operating activities for 2011 was $25.2 million compared to net cash generated from operating activities of $19.4 million in 2010. The Company's accounts receivable balance at December 31, 2011 was $19.2 million of which only $0.2 million was greater than 90 days overdue. The risks associated with the Company's accounts receivable are viewed as normal for the industry and management assesses the creditworthiness of its customers on an ongoing basis.

Investing Activities – Continuing Operations

For the year ended December 31, 2011, capital expenditures to acquire rigs, equipment and other operational assets were $14.8 million, before deducting a reimbursement of $1.5 million, compared to capital expenditures of $8.2 million in 2010. Most of the capital expenditures in 2011 were directed at PNG for acquisitions of matting and other items that make up the rental fleet and for the refurbishment of Rig 102 as previously discussed.

During the first quarter of 2010, the Company sold three rigs. The rigs were not being actively utilized in the business and were classified as assets held for sale. The Company received sale proceeds of $14.9 million ($6.6 million related to discontinued operations).

Financing Activities – Continuing Operations

The Company has made significant repayments of its credit facility, reducing the outstanding principal balance by $19.3 million during 2011. The Company also made net loans to its directors and officers of $0.8 million during 2011.

Quarterly Financial Review

Selected Quarterly Consolidated Financial Information (Three Months Ended)

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

$ million except per share amounts	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010
Revenue	**37.1**	**29.3**	**24.9**	**35.9**	**33.3**	**29.0**	**22.4**	**34.6**
Net earnings (loss) – before discontinued operations	7.8	3.0	(0.1)	7.3	5.3	2.9	2.6	4.7
per share (basic)	$0.17	$0.07	$(0.00)	$0.17	$0.12	$0.07	$0.08	$0.51
per share (diluted)	$0.16	$0.06	$(0.00)	$0.14	$0.12	$0.07	$0.08	$0.37
Net earnings (loss) – discontinued operations	-	-	-	-	(0.6)	(0.2)	(0.1)	(0.1)
per share (basic)	-	-	-	-	$(0.01)	$(0.01)	$0.00	($0.01)
per share (diluted)	-	-	-	-	$(0.01)	$(0.01)	$0.00	($0.01)
Net earnings (loss)	7.8	3.0	(0.1)	7.3	4.7	2.7	2.5	4.6
per share (basic)	$0.17	$0.07	$(0.00)	$0.17	$0.11	$0.06	$0.08	$0.50
per share (diluted)	$0.16	$0.06	$(0.00)	$0.14	$0.11	$0.06	$0.08	$0.36

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

Industry Indicators and Market Trends

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

	2011				2010			
Average for the period	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Oil and natural gas prices								
West Texas Intermediate *(US $/bbl)*	$94.06	$89.71	$102.55	$93.98	$85.03	$76.17	$77.89	$78.63
Brent Crude (*US $/bbl)*	$109.32	$112.48	$117.13	$104.90	$86.80	$76.41	$78.67	$76.65
AECO *(C$ /Mcf)*	$3.18	$3.72	$3.74	$3.77	$3.58	$3.72	$3.86	$5.36
Other industry indicators								
Well completions in Western Canada[(1)]	4,621	3,861	3,323	4,276	5,352	2,767	2,323	3,133
Gas well drilling in Western Canada[(1)]	1,009	803	980	1,660	2,132	1,124	1,122	1,490
Active drilling rigs in Western Canada[(1)]	489	454	190	534	399	323	154	431
Average drilling rig utilization rates[(1)]	61%	57%	24%	68%	50%	41%	19%	54%
Average Canadian/US dollar exchange rate	0.978	1.020	1.033	1.015	0.987	0.962	0.973	0.961

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

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

Oil prices increased in the fourth quarter of 2011 by 11% to an average price of $94.06 US per barrel as compared to the average price at the end of fourth quarter of 2010 of $85.03 US per barrel. Natural gas prices have continued to remain very weak. The AECO reference natural gas price averaged $3.18 CAD per Mcf in the fourth quarter of 2011, and was lower by 11% compared to the fourth quarter of 2011. High Arctic's Canadian activity levels are tied more closely to gas drilling activity. Despite the weakness in natural gas prices, the activity in unconventional oil and natural gas development in Canada continues at reasonable activity levels as producers have typically been able to extract enough associated liquids from these wells to make the projects economic. In addition, Asian energy companies are increasingly investing in Canadian projects. Liquids or condensates such as ethane, butane and propane, typically attract prices tied to oil prices making them very 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.

The Canadian oilfield services sector is subject to seasonality with peak activity levels in the first and fourth quarters. The CAODC reported 4,621 wells were completed in Canada during the fourth quarter of 2011; a decrease of 13.7% (731wells) from the 5,352 wells completed in the same period in 2010. Gas well drilled in the fourth quarter of 2011 totalled 1,009, which was a decrease of 1,123 (53%) gas wells as compared to the same period in 2010 when 2,132 natural gas wells were drilled. Despite the 53% drop in gas well drilling, High Arctic's overall equipment utilization was 64% in the fourth quarter compared to 61% in the same quarter of 2010. Additionally, utilization in the snubbing product line was also up in the quarter compared to last year, which is an indication; both that High Arctic has improved its market share in terms of overall natural gas well completions and that the Company's services are well suited for the more complex wells that are the primary driver of current activity levels.

The Company's PNG activity is based on longer term contracts and thus is less affected in the short term by the volatility of oil and gas prices. Those contracts are denominated in U.S. dollars. The Canadian dollar value depreciated relative to the U.S. dollar by approximately 4% in the fourth quarter of 2011 compared to the same period in 2010 which had a positive impact on the financial results for PNG in the fourth quarter of 2011 as compared to 2010. However, for 2011 as a whole the U.S. dollar was weaker averaging 0.99 per Canadian dollar compared to 1.03 in 2010.

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 the 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 expected to also be tied to world oil prices on an energy equivalent basis. This bodes well for High Arctic and its geographical diversification in PNG effectively provides it with exposure to world oil prices.

Fourth Quarter Analysis

$ millions (except per share amounts)	Three Months Ended December 31			
	2011	**2010**	**Change**	% Change
Revenue	**37.1**	**33.3**	**3.8**	**11.4**
EBITDA[(1)]	**10.9**	**8.7**	**2.2**	**25.3**
Adjusted EBITDA[(1)]	**11.0**	**9.5**	**1.5**	**15.8**
Operating earnings from continuing operations	**8.8**	**7.5**	**1.3**	**17.3**
Net earning	**7.8**	**4.7**	**3.1**	**66.0**
per share (basic)[(2)]	0.17	0.11	0.06	54.6
per share (diluted)[(2)]	0.16	0.11	0.05	45.5
Cash Flows provided by operations[(1)]	**10.6**	**8.4**	**2.2**	**26.2**
Capital expenditures	**1.1**	**3.7**	**(2.6)**	**(70.3)**
Net debt (end of period)[(1)]	**0.7**	**12.2**	**(11.5)**	
Shares outstanding-basic[(2)]	**46.0**	**43.0**	**(3.0)**	
Shares outstanding-diluted[(2)]	**49.6**	**43.0**	**(6.6)**	

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

(2) During July, 2011, the Company completed a consolidation of its common shares on the basis of one (1) new post consolidation common share for every five (5) pre-consolidated common shares. For comparative purposes, all per share and share outstanding information presented in the table above reflect the share consolidation as if it had occurred prior to all periods presented above.

Operating Segment Results for the Three Months Ended December 31, 2011 and 2010

	Three Months Ended December 31			
$ millions	**2011**	**2010**	**Change**	**% Change**
Revenue				
Canada	15.9	12.1	3.8	31.4
Papua New Guinea and other international	21.2	21.2	-	-
Total Revenue	**37.1**	**33.3**	**3.8**	**11.4**
Oilfield services expense	**24.0**	**21.4**	**(2.6)**	**(12.2)**
% of Revenue	64.7%	64.3%		
Oilfield services operating margin	**13.1**	**11.9**	**1.2**	**10.1**
% of Revenue	35.3%	35.7%		
Equipment utilization in Canada	64%	61%	3%	
CAODC drilling rig utilization	61%	50%	11%	

High Arctic experienced strong activity levels in its Canadian operation in the fourth quarter. Revenue in Canada was up 31.4% over the same period last year. The improvement in revenue reflects the strong demand for the Company's services in the unconventional shale gas and liquid rich plays and the benefit of improved day rates. Revenue for PNG in the fourth quarter was comparable to last year, despite pricing concessions granted to the company's major customer and delays in matting and equipment rental deliveries. Highlights for the quarter included:

- Consolidated revenue increased by 11.4% to $37.1 million in the fourth quarter of 2011 as compared to $33.3 million during the same period of 2010. The increase in revenue was due to a $3.8 million, or 31.4% increase in Canadian revenue. Utilization in Canada was led by the nitrogen division at 98.0% utilization and snubbing equipment at 44.3%. The time spent on a well averaged 5.3 days in 2011 compared to 4.8 days in 2010, reflecting more complex well profiles.

- Revenues of $21.2 million from PNG operations for the three months ended December 31, 2011 were comparable to the same period of 2010. Rig 104 and Rig 102 were each active throughout the quarter while in 2010 Rigs 104 and 103 were each active while Rig 102 was idle. Revenue for the 4th quarter in 2011 benefited from the capital expenditures during the year though the results were impacted by delivery delays for a 2,000 mat contract.

- Interest and financing fees were $0.4 million in the three months ended December 31, 2011, a reduction of $0.7 million compared to $1.1 million in the same period of 2010. This is the result of lower interest rates on the Company's current debt facilities equivalent to prime plus 1.75%, or 4.75%, versus 9.5% under the former demand facilities in the fourth quarter of 2010.

- Adjusted EBITDA was $11.0 million for the three months ended December 31, 2011; an increase of $1.5 million from Adjusted EBITDA of $9.5 million for the same quarter in 2010. The increase reflects the increased revenue from the Canadian operations.

- The Company recorded net earnings of $7.8 million ($0.17 per share) in the fourth quarter of 2011, as compared to net earnings of $4.7 million ($0.11 per share) in the same period of 2010.

Outlook

Given the ongoing weakness in natural gas prices, the Company expects that Canadian drilling and completion activity in 2012 will continue to focus on the development of oil and liquids-rich natural gas resource plays. The activity in the Montney and other deep basin plays of northwest Alberta and northeast British Columbia are expected to remain reasonably active in 2012 as producers focus on areas with plays offering the highest liquids content. In addition to the more developed regions, emerging areas such as the Duvernay shale could drive improved demand for High Arctic's services in 2012 and beyond. The growing interests in Canadian gas prospects by Asian based energy companies are encouraging in terms of bringing new capital to the industry and hopefully ultimately leading to improved access to Asian markets.

The Company expects that customers will continue to strive to improve drilling and completion efficiencies, such as through increased use of multi-well pads and 24-hour operations. An increasing amount of the activity involves wells with long horizontal legs and a greater number of fractures per wellbore, leading to increasing complexity. For High Arctic, the complexity of these wells has translated into an increase in operating days per rig per well and higher total revenue per job. The Company's equipment is well suited for the longer lateral multi-completion wells as generally the wells require either a snubbing unit or coiled tubing for completion. In a number of applications, snubbing is a better alternative to coil tubing as it can provide a larger pull capacity and has the ability to apply higher torque to turn, push and pull the jointed pipe string which is important when trying to dislodge it from stuck-in-hole situations or fishing. High Arctic will continue to adapt its snubbing and well servicing technologies to the emerging needs of its customers as part of its effort to increase market share against coiled tubing. Management is cautiously optimistic that activity levels in the liquids rich and unconventional shale gas plays will continue to allow High Arctic to grow revenues despite low natural gas prices although the gas oversupply situation could curtail activity if more wells are forced to shut in and are unable to produce the associated liquids. The Petroleum Services Association of Canada's (PSAC) most recent forecast for 2012 is for a 10% increase in the number of wells released over 2011 though that forecast may need some adjustment.

The Canadian oilfield services industry is experiencing both a limited supply of certain specialized equipment and a shortage of qualified field personnel. This situation has led to increases in the industry day rates, but has also placed inflationary pressures on wages for experienced personnel and other operating costs. We expect that trend to continue.

The Company is in a relatively strong position given its relationships and first call commitments with some of the natural gas industry's most active operators. Management remains focused on maintaining a competitive cost structure, improving operating efficiencies and increasing its workforce to activate underutilized equipment. Attracting and retaining qualified field personnel is expected to be an ongoing challenge for 2012. The Company's goal is to maintain and add additional operating crews to keep pace with the demand for its equipment.

Operations in PNG provide stability to cash flows for the Company, particularly because Rigs 103, Rig 104 and the related support services have been contracted until December 2013 and Rig 102 is contracted until May 2014. Those contracts provide a significant base level of activity to support the operations in PNG. Operations in PNG are expected to be more active in 2012.

Our major customer in PNG expects to move from a one drilling rig program to two rigs in the second half of 2012. Current plans are to use one drilling rig crew to operate either Rig 104 or Rig 103 during the first part of the year. Rig 103 was recently mobilized to the Western Province in PNG to drill a well, and is expected to be drilling into the second quarter of 2012, following which the crew will move back onto Rig 104 to resume drilling with that rig. Meanwhile Rig 103 is expected to move to the Highlands area of PNG to possibly begin drilling operations in the fourth quarter or early 2013 in parallel with Rig 104 for our main customer as part of the plan to move to the two rig operation. Rig 101 may also be commissioned to drill one well in 2012 with a second drilling crew that would then move to Rig 103. Drilling opportunities with other operators remain possibilities, but more likely to be realized in 2013 than 2012.

The Company's expectation is that Rig 102 will be active throughout most of 2012 working on the workover program for its main customer. Operating margins on this rig are improving and most of the start-up issues which were part of its early operation in 2011 have now been addressed.

High Arctic provides drilling support equipment on a rental basis to a number of customers in Papua New Guinea. The matting rental business has expanded significantly over the past 18 months and the Company currently has firm contracts for all 5,500 Dura-Base mats currently in the country. The Company will continue to pursue opportunities to expand that business line and increase its rental fleet. Matting and rental equipment investments made in 2011 will benefit the PNG operation into 2012 as they are put fully into service.

On February 2, 2012, the Company announced a $23.0 million capital budget for 2012 which is anticipated to be fully funded from cash flow. Growth capital expenditures are budgeted at $16.0 million, and maintenance capital expenditures at $7.0 million. Capital expenditures are anticipated to be funded from operating cash flow. Growth capital spending is intended to be focused primarily on adding to the Company's equipment rental fleet as well as the expansion of the Canadian nitrogen division. Capital spending plans may be adjusted in accordance with changes in market conditions or on the ability to secure contracts with acceptable returns. While no firm decisions have been made, management anticipates the incurrence of similar or higher levels of maintenance capital in future years in order to maintain the high quality standard of its fleet.

Customer Concentration

The Company's account receivables are predominantly with customers who explore for and develop petroleum reserves and are subject to normal industry credit risks. The Company assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding. The Company views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Company has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Company has two significant customers. Services are provided to the first significant customer in Papua New Guinea. That customer represents approximately 48% of the Company's revenue for the year ended December 31, 2011 (55% for the year ended December 31, 2010) and 30% of its accounts receivable at December 31, 2011 (48% at December 31, 2010). The second significant customer is a major Canadian exploration and production company which represents approximately 10% of the Company's revenue for the year ended December 31, 2011 (11% for the year ended December 31, 2010) and 4% of the Company's accounts receivable at December 31, 2011 (10% at December 31, 2010). The services provided to this customer are distributed within this customer's diverse locations of operations within Canada which management believes limits the risk of concentrating a significant portion of its revenue on this customer. Management has assessed the two customers as highly creditworthy and the Company has had no history of collection issues with either customer.

Commitments and Contingencies

Accounts Receivable

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

Inventory

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

Other

The Company has posted a performance bond of approximately US$3.8 million, in respect of a contract in the Middle East region, and would be liable if the bond was called as a result of a default by the Company in the performance of its obligations under the contract. Under the terms of the contract, the Company could be obligated to provide up to five rigs that may not be available if requested. As at December 31, 2011, the Company was not providing any services under that contract. The term of the contract ends in August, 2012.

Contractual Obligations

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

The following are the Company's contractual obligations as at December 31, 2011:

	Payments Due by Period				
$ millions	**Total**	**Less than 1 Year**	**1 – 3 Years**	**4 – 5 Years**	**After 5 Years**
Credit facility obligations[1]	17.2	4.8	12.4	-	-
Operating lease obligations	1.5	0.6	0.8	0.1	-
Total obligations	18.7	5.4	13.2	0.1	-

(1) Excludes debt transaction costs of $0.3 million

Risk Management and Uncertainties

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

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

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

The Company is also subject to specific risks.

Financing Risk

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

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

Liquidity Risk

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

Customer Concentration

Please refer to "Customer Concentration" section above.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk as the term loan is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. For the year ended December 31, 2011, a 1% nominal change in the interest charged to the Company under its credit facility would have changed interest expense by $0.2 million.

Income Tax Risk

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

The Company must file tax returns in the foreign jurisdictions in which it operates. The tax laws and the prevailing assessment practices are subject to interpretation and the foreign authorities may disagree with the filing positions adopted by the Company.

Operational Risk and Insurance

High Arctic's operations are subject to operational risks inherent in the oil and gas services industry. These risks include equipment defects, malfunctions and failures, natural disasters, vehicle accidents, explosions and uncontrollable flows of natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruptions, and damage to or destruction of property and equipment. High Arctic continuously monitors its activities for quality control and safety in order to reduce the risk. The Company has obtained insurance against certain risks; however, such insurance may not be adequate to cover High Arctic's liabilities and may not be available in the future at rates which High Arctic considers reasonable and commercially justifiable.

Reliance on Key Personnel

The success of the Company is dependent upon its key personnel. Any loss of the services of such persons could have a material adverse effect on the business and operations of the Company. The Company's ability to provide reliable and quality services is dependent on its ability to hire and retain a dedicated and quality pool of employees. The Company strives to retain employees by providing a safe working environment, competitive wages and benefits, and an atmosphere in which all employees are treated equally regarding opportunities for advancement.

Credit Risk

The Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. During times of weak economic conditions, the risk of increased payment delays and default increases due to reductions in customers' cash flow. Failure to collect accounts receivable from customers could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. High Arctic generally grants unsecured credit to its customers; however, it evaluates all new customers, as appropriate, and analyzes and reviews the financial health of its current customers on an ongoing basis.

Risk of Foreign Operations

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

Foreign Exchange Rate Risk

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

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

Commodity Price Risk

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

Dependence on Suppliers

High Arctic sources supplies and materials from a variety of suppliers in Canada and internationally. Failure of suppliers to deliver supplies and materials in a timely and efficient manner would be detrimental to the Company's ability to maintain levels of service to its customers. High Arctic attempts to mitigate this risk by maintaining good relations with key suppliers. However, if the current suppliers are unable to provide the supplies and materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to our clients could have a material adverse effect on our results of operations and our financial condition.

Competition

The Company's continued success partially depends upon developing and implementing technological advances in its equipment and services and the ability to match advances of competitors. The oilfield services industry is highly competitive and the Company competes with a substantial number of companies. Reduced levels of activity in the oil and gas industry can intensify competition, which will have an effect on the Company's ability to generate revenue and earnings.

Other

Additional risk factors relating to the Company are also outlined in the Annual Information Form for the year ended December 31, 2010, filed on SEDAR at www.sedar.com.

Critical Accounting Estimates

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

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

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

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

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

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

Related Party Transactions

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

The principal amount of each loan bears interest at an annual rate of 2%. Each loan is fully payable on the earlier of (i) thirty days after the date that a Borrower ceases to be an employee or director of the Company and (ii) April 15, 2014. As at December 31, 2011, the outstanding amount related to these loans was $0.8 million.

An individual who, prior to April 30, 2010, controlled almost 40% of the outstanding shares and who was a director and officer of the Company until December 16, 2008 (the "Shareholder") made various loans and advances to the Company. Interest expense for the year ended December 31, 2011 includes $0.2 million accrued to March 31, 2010. As part of the restructuring transactions completed on April 30, 2010, the Company issued 6,593,677 common shares to the Shareholder and companies controlled by him in settlement of the outstanding obligations owing by the Company on that date with a recorded amount of approximately $7.2 million.

International Financial Reporting Standards

The Company began reporting its financial results in accordance with IFRS on January 1, 2011, the changeover date set by the Canadian Accounting Standards Board (AcSB). IFRS compliant comparative financial information for one year from the changeover date is required including the conversion of the January 1, 2010 (the "Transition Date") opening statement of financial position, the transition date for IFRS. For the quarters ended March 31, 2010, June 30, 2010, and September 30, 2010 and December 31, 2011, High Arctic restated its operating results as if it had always prepared financial results in accordance with IFRS.

The Company's financial statements for the year ending December 31, 2011 are the first annual financial statements that comply with IFRS. The Financial Statements and this MD&A have been prepared under IFRS as described in Note 3 of the Financial Statements.

IFRS requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010. IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

The following is a summary of the IFRS exemptions adopted by the Company:

IAS 21 – Foreign Exchange
An election exists under IFRS 1 to reset the accumulated foreign currency amounts to zero. Under the temporal method that has been used under GAAP by High Arctic, all foreign exchange gains or losses have been charged through the statement of income and therefore form part of retained earnings. Thus there have been no separately accumulated foreign currency amounts on the statement of financial position of High Arctic.

On conversion to IFRS, High Arctic will choose the election under IFRS 1 to reset the accumulated foreign currency amounts to zero in order to avoid having to recreate the historic amount of accumulated foreign currency. There will be no effect to the financial statements as a result of this election.

Future Accounting Changes

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

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

IFRS 10 & IAS 27
IFRS 10, "Consolidated financial statements", is part of the group of five new standards that address the scope of the reporting entity. IFRS 10 replaces all of the guidance on control and consolidation in IAS 27, "Consolidated and separate financial statements", and SIC-12, "Consolidation − special purpose entities". IAS 27 is renamed "Separate financial statements"; it continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The changed definition and application guidance is not exp-3(i)-4(t28(a)-33(x)27(i)-4(o)-3(n)-3()7(n)-3(i)-4(-3(a)-3(7(n)-3(

Internal Controls Over Financial Reporting

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

The Company has adopted the Committee of Sponsoring Organizations of the Treadway Commission framework to design ICFR. With the assistance of external consultants, throughout 2009, the Company reviewed the design and effectiveness of its ICFR. External consultants and senior management personnel conducted process review, design and development processes to ensure that controls were designed appropriately. In the fourth quarter of 2011, the Company with the assistance of external consultants performed testing to ensure that processes and controls were operating effectively. Based upon their evaluation of the ICFR, the Chief Executive Officer and the Chief Financial Officer have satisfied themselves that the ICFR are effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. While the Company is continually improving its ICFR, no material changes were made during the twelve month period ended December 31, 2011 that would materially affect or are reasonably likely to materially affect the Company's ICFR.

Financial Measures

This MD&A contains references to certain financial measures that do not have a standardized meaning prescribed by IFRS or previous Canadian GAAP and may not be comparable to other companies. High Arctic uses these financial measures to assess performance and believes these measures provide useful supplemental information to 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 (loss) reported in the consolidated statement of income, EBITDA is a useful supplemental measure of the Company's performance prior to consideration of how operations are financed or how results are taxed or how depreciation and amortization affects results. EBITDA is not intended to represent net earnings calculated in accordance with IFRS.

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

The following tables provide a quantitative reconciliation of net earnings to EBITDA and Adjusted EBITDA for the year ended December 31, 2011 and 2010 and the three months ended December 31, 2011 and 2010 and include the impact of discontinued operations:

	Year ended December 31, 2011	Year Ended December 31, 2010
Net earnings from continuing operations	18.0	14.5
Add (deduct)		
Interest and finance expenses	1.9	5.3
Gain on restructuring transactions	-	(2.6)
Income taxes	3.4	6.4
Amortization	8.7	7.8
EBITDA	**32.0**	**31.4**
Add (deduct)		
Share-based compensation	2.8	1.9
Gain on sale of investments	(2.0)	-
Foreign exchange (gain) loss	0.6	-
Adjusted EBITDA	**33.4**	**33.3**

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010
Net earnings	7.8	4.5
Add (deduct)		
Interest and finance expenses	0.3	1.1
Income taxes	0.6	1.1
Amortization	2.2	2.0
EBITDA	**10.9**	**8.7**
Add (deduct)		
Share-based compensation	0.5	1.2
Gain on sale of assets	(0.1)	(0.1)
Foreign exchange (gain) loss	(0.3)	(0.3)
Adjusted EBITDA	**11.0**	**9.5**

Operating Earnings

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

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

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

Cash Flow Provided by Operations
Management believes that, in addition to net cash generated from operating activities as reported in the Consolidated Statement 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 working capital.

Operating working capital
Operating working capital is used by management and the investment community as another measure to analyze the operating liquidity available to the Company. It is defined as current assets (excluding assets held for sale and assets related to discontinued operations) less current liabilities (excluding the current portion of the long-term debt or the credit facility).

Net debt
Net debt is used by management and the investment community to analyze the amount of total debt that would be remaining after cash balances are applied against the debt. It is calculated as total debt (including current portion) less cash.

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

Subsequent Events

There have been no material events subsequent to December 31, 2011 up to the date of this report.

Additional Information

Additional information on the Company, including the Annual Information Form for the year ended December 31, 2010, can be found on SEDAR at www.sedar.com.