High Arctic Energy Services Inc.
Management Discussion and Analysis
Three and nine months ended September 30, 2011

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of High Arctic Energy Services Inc. (the "Corporation" or "High Arctic") for the three and nine months ended September 30, 2011 as compared to the same periods in 2010. It also contains information on the Corporation's future outlook based upon currently available information. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2011 (the "Interim Financial Statements") and the audited financial statements for the year ended December 31, 2010 and annual MD&A of those audited financial statements. Readers should also read the "*Forward-Looking Statements*" contained at the end of this document.

The Interim Financial Statements and the MD&A are reported in Canadian dollars unless otherwise stated. The Interim Financial Statements of the Corporation have been prepared in accordance with IAS 34 Interim Financial Reporting and IFRS 1 *First Time Adoption of International Financial Reporting Standards* as issued by the International Accounting Standards Board ("IASB"). The Interim Financial Statements do not include all the information and disclosures required in the consolidated annual financial statements, and therefore this MD&A should be read in conjunction with the Corporation's consolidated annual financial statements as at December 31, 2010.

The MD&A is dated November 14, 2011.

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 work over services and other oilfield 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 Corporation fleet of equipment in Canada at September 30, 2011 included 21 snubbing units, 10 nitrogen pumpers, 5 nitrogen transports and 3 rack and pinion underbalanced work-over units. High Arctic is active in Papua New Guinea where it provides contract drilling and work-over services and supplies rig matting 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 major oil and gas company.

Outstanding Share Data

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

On June 15, 2011, the Corporation 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 September 30, 2011 and November 10, 2011, there were 49,596,637 issued and outstanding common shares. That number includes 3,620,000 shares held in the Share Incentive Plan (*see Note 12 of the Interim Financial Statements*) some of which may be cancelled under certain circumstances related to a three year vesting period requirement.

The Corporation's common shares trade on the Toronto Stock Exchange under the symbol HWO. The closing price of the shares on November 14, 2011 was $1.45 per share. Based upon issued common shares on that date of 49,596,637, the Corporation has an approximate market capitalization of $71.9 million.

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.

	2011			2010				2009
Average for the period	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Oil and natural gas prices								
West Texas Intermediate *(US $ /bbl)*	89.71	$102.55	$93.98	$85.03	$76.17	$77.89	$78.63	$76.07
AECO *(C$ /Mcf)*	$3.72	$3.74	$3.77	$3.58	$3.72	$3.86	$5.36	$4.28
Other industry indicators								
Well completions in Western Canada[1]	3,861	3,323	4,276	5,352	2,767	2,323	3,133	1,746
Gas well drilling in Western Canada[1]	803	980	1,660	2,132	1,124	1,122	1,490	578
Active drilling rigs in Western Canada[1]	454	190	534	399	323	154	431	273
Average drilling rig utilization rates[1]	57%	24%	68%	50%	41%	19%	54%	32%
Average Canadian/US dollar exchange rate	1.020	1.033	1.015	0.987	0.962	0.973	0.961	0.946

(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 decreased in the third quarter of 2011 by 12.5% ($12.84 US per barrel) to an average price of $89.71 US per barrel as compared to the average price at the end of the second quarter of 2011 of $102.55 US per barrel. Natural gas prices have continued to remain relatively weak. The AECO reference natural gas price averaged $3.72 CAD per Mcf in the third quarter of 2011, and was essentially flat over the last six quarters. Natural gas prices remain a concern to the industry and may lead to a further reduction in the demand for natural gas drilling activity in western Canada. The current weakness in natural gas prices has led to a shift over the last several quarters towards oil and liquids rich natural gas drilling. Despite the weakness in natural gas prices, the viability and growth of unconventional oil and natural gas development in Canada and the US continues to remain strong.

The Canadian oilfield services sector is subject to seasonality with peak levels in the first and fourth quarters. The CAODC reported 3,861 wells were completed in Canada during the third quarter of 2011; an increase of 40% (1,094 wells) from the 2,767 wells completed in the same period in 2010. Gas well completions in the third quarter of 2011 totalled 803, which was a decrease of 321 (29%) gas wells as compared to the same period in 2010 when 1,124 natural gas wells were completed. High Arctic's Canadian business is primarily dependent on natural gas and liquids rich natural gas well drilling and completions. Despite the 29% drop in gas well completions, High Arctic's overall equipment utilization was 54% in the third quarter compared to 50% 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 captured a stronger market share in terms of overall natural gas well completions and that the Corporation's services are in higher demand in the unconventional shale gas plays in Canada.

The Corporation has significant international operations in PNG where it provides contract drilling services and work-over services. The Corporation's international activity is based on longer term contracts and thus 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 rose relative to

the U.S. dollar by approximately 6% in the third quarter of 2011 compared to the same period in 2010 which negatively impacted the financial results for PNG in the third quarter of 2011 as compared to 2010.

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"):

	Three Months Ended September 30			Nine Months Ended September 30			Year Ended December 31
$ millions (except per share amounts)	2011	2010	Change	2011	2010	Change	2010
Revenue	29.3	29.0	0.3	90.1	86.0	4.1	119.3
EBITDA[1]	7.1	8.2	(1.1)	21.3	23.6	(2.3)	33.3
Adjusted EBITDA[1]	7.9	8.0	(0.1)	22.2	23.9	(1.7)	33.3
Operating earnings from continuing operations	4.2	5.5	(1.3)	14.5	17.2	(2.7)	24.6
Net earnings	3.0	3.0	-	10.2	10.0	0.2	14.5
per share (basic)[2]	0.07	0.07	-	0.23	0.35	(0.12)	$0.46
per share (diluted)[2]	0.06	0.07	(0.1)	0.21	0.35	(0.14)	$0.47
Cash Flows provided by operations[1]	6.0	5.8	0.2	19.1	11.8	7.3	22.6
Capital expenditures	4.5	1.7	2.8	13.5	4.5	9.0	6.7
Net debt (end of period)[1]	(3.1)	10.8	13.9	(3.1)	10.8	13.9	4.7
Shares outstanding-basic[2]	46.0	42.9	3.1	44.7	20.5	24.2	31.8
Shares outstanding-diluted[2]	49.7	43.1	6.6	48.4	20.6	27.8	30.7

(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) The Corporation 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 Third Quarter of 2011

- Revenue increased by $0.3 million, or 1%, for the third quarter ended September 30, 2011 compared to the third quarter ended September 30, 2010 as a result of increased activity in Canada. Revenue in that region improved by $2.0 million, or 21.7%. This was partially offset by a $1.7 million, or 8.6%, decline in PNG revenue. Canadian activity levels started out slow in July from an extended spring breakup, but rebounded strongly for the remainder of the quarter.

- High Arctic's Canadian business is primarily dependent on natural gas and liquids rich natural gas well drilling and completions. Despite a drop in natural gas well completions in proportion to overall well completions in Canada, High Arctic's equipment utilization and snubbing product line utilization was higher in the third quarter compared to last year, which is indicative both that High Arctic has increased market share in terms of overall natural gas well completions and that the Corporation's services are in higher demand in the unconventional shale gas plays in Canada.

- Adjusted EBITDA, which excludes the impact of foreign exchange gain or losses primarily from the translation of intercompany balances, was $7.9 million versus $8.0 in the same prior period. The Canadian operations benefited from improved pricing and an overall 54% utilization rate on its equipment in the third quarter, with the Nitrogen and pressure pumping division leading at utilization of 81.3%. PNG operating margins were negatively impacted primarily by the weaker US dollar, pricing concessions on contract extensions, Rig 103 being on warm stack for the entire quarter and startup costs to put the newly refurbished Rig 102 into service. The foreign exchange loss arose primarily on intercompany debt balances owed to foreign operations and is a non-cash charge.

- Cash flows provided by operations during the third quarter of 2011 increased by $0.2 million to $6.0 million compared to $5.8 million in the third quarter of 2010.

- The Corporation's financial position continued to strengthen in the third quarter of 2011 as total debt was reduced by $1.2 million to $18.4 million as at September 30, 2011 compared to $19.6 million at June 30, 2011 and $36.5 million at December 31, 2010. Operating working capital at September 30, 2011 of $21.5 million exceeded total debt by $3.1 million compared to net debt of $0.6 million at the end of June 30, 2011 and $4.7 million at December 31, 2010. Total debt to 12-month trailing EBITDA ratio was 0.60 times at September 30, 2011 compared to 1.1 times as at December 31, 2010. As at the end of September 30, 2011, $10.0 million of the $30.0 million credit facility remains available.

Overview of Results for the Three and Nine Months Ended September 30, 2011

High Arctic generated $3.0 million ($0.07 per share basic) of net earnings which was comparable to the same amount of $3.0 million ($0.7 per share basic) of net earnings in the third quarter of 2010. Despite a slow start to the quarter from the extended spring breakup, both utilization and average rates in Canada were higher than last year. The combination of these factors, as well as improved pricing and lower maintenance costs, led to improved oilfield services margins in Canada. Results in the PNG division were down in terms of both revenue and oilfield services margin, due to a weaker US dollar, Rig 103 not being active in the quarter, lower day rates on recent contract extensions and normal course Rig 102 startup costs.

On a consolidated basis, the Corporation generated $29.3 million in revenue during the quarter ended September 30, 2011; an increase of $0.3 million (1%) from revenue of $29.0 million in the quarter ended September 30, 2010. Revenue in Canada was 22% higher at $11.2 million in the quarter compared to $9.2 million in the same quarter last year. Overall equipment utilization in Canada was 54% in the quarter compared to 50% last year, led by the nitrogen and pressure pumping division. Revenue was down 9% in PNG to $18.1 million compared to $19.8 million due to factors previously mentioned.

On a year to date basis, consolidated revenue was up $4.1 million to $90.1 million compared to $86.0 million for the same period last of 2010, representing a $4.1 million (5%) increase. Of this increase, $4.2 million was generated by the Canadian operations due to strong first and third quarter performance. Papua New Guinea revenue was essentially flat on a year to date basis in comparison to last year.

The corporation achieved EBITDA of $7.1 million for the three months ended September 30, 2011 compared to $8.2 million for the three months ended September 30, 2010, representing a decline of $1.1 million (13%). On an Adjusted EBITDA basis, which excludes the impact of foreign exchange gains or losses, which arise primarily on the translation of the foreign denominated intercompany loans of the parent company owed to its foreign subsidiaries, High Arctic recorded $7.9 million, which was essentially flat compared to last year. On a year to date basis in 2011, Adjusted EBITDA was $22.2 million compared to $23.3 million for the first three quarters of 2010.

Net earnings for the nine months ended September 30, 2011 were $10.2 million ($0.21 per diluted share) compared to $10.0 million ($0.23 per diluted share) for the nine months ended September 30, 2010. The 2010 results benefited from a one-time $2.7 million gain on restructuring transactions. Excluding the impact of that item, net earnings for the nine months ended September 30, 2011 would have been up $2.9 million in large part due to lower interest expense and financing costs and income taxes.

Operating Segment Results for the Three and Nine Months Ended September 30, 2011 and 2010

(Note: amounts below exclude amounts from discontinued operations and are presented in accordance with IFRS)

	Three Months Ended September 30			Nine Months Ended September 30			Year ended December 31
$ millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**	**2010**
Revenue							
Canada	11.2	9.2	2.0	31.2	27.0	4.2	39.1
Papua New Guinea and other international	18.1	19.8	(1.7)	58.9	59.0	(0.1)	80.2
Total Revenue	**29.3**	**29.0**		**90.1**	**86.0**		**119.3**
Oilfield services expense	**19.6**	**19.2**	**(0.4)**	**62.2**	**55.9**	**(6.3)**	**77.3**
% of Revenue	66.9%	66.2%		69.0%	65.0%		64.8%
Oilfield services operating margin	**9.7**	**9.8**	**(0.1)**	**27.9**	**30.1**	**(2.2)**	**42.0**
% of Revenue	33.1%	33.8%		31.0%	35.0%		35.2%
Equipment utilization in Canada	54%	50%	3%	51%	51%	-	54%
CAODC drilling rig utilization	57%	40%	17%	50%	38%	12%	41%

Operations in Canada

The third quarter was a strong quarter in Canada as revenues increased by $2.0 million to $11.2 million compared to $9.2 million in the third quarter of 2010. Activity levels in the quarter started out slowly as the prolonged spring breakup extended into July, but then rebounded strongly for the remainder of the quarter. The Corporation achieved overall equipment utilization of 54% compared to 50% in the same quarter of last year. 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 snubbing services. Utilization for the snubbing units went from 22% in July to 47% for both of August and September. Overall snubbing utilization for the quarter ended September 30, 2011 was 39% as compared to 37% for the quarter ended September 30, 2010. The most significant increase in utilization was experienced in the nitrogen services and pressure pumping product line as utilization increased to 81% in the quarter compared to 68% in the same quarter of last year.

For the nine months ended September 30, 2011, Canadian revenue was up $4.2 million (13%) to $31.2 million compared to $27.0 million for the nine months ended September 30, 2010. Total equipment utilization on a year to date basis of 51% was the same as for the nine months ended September 30, 2010. Year to date performance in Canada was strong on both a revenue and utilization level, despite a prolonged spring breakup in the second quarter due to wet weather. Utilization in the second quarter was 16% compared to 29% in the second quarter of 2010. Additional upside in revenue and utilization in snubbing services was available in the third quarter, however the Corporation continued to be affected by a shortage of experienced field personnel and the result was that the Corporation had to turn down some work. Rate increases have been implemented for all business lines in Canada and should the current industry activity levels continue, further improvements in revenue and utilization are anticipated to continue from the levels experienced in the third quarter.

Oilfield activity improved significantly on a quarter over quarter basis in Canada. A total of 3,861 wells were completed in Canada during the third quarter of 2011, an increase of 40% (1,094 wells) from the 2,767 wells completed in the same period in 2010. Although total well completions were up significantly, much of the increased activity was targeted at oil and the number of natural gas well completions markedly declined by 29% compared to the same quarter of 2010. Natural gas prices and, to a lesser extent, oil prices are the primary drivers of the Corporation's activity levels as the netbacks expected to be received by its customers heavily influence their drilling and completion plans. Despite a significant drop in natural gas well completions, equipment utilization in Canada for the Corporation was 54% compared to 50% for the same period last year. Further, as previously mentioned, snubbing equipment utilization was also up in the quarter which is indicative; both that High

Arctic has kept pace with industry trends towards more liquids rich and unconventional natural gas drilling, and also of the leading market position of the Corporation in the Canadian snubbing industry. The Corporation's has equipment that is suited to the longer lateral multi-completion wells. For the first three quarters of 2011, there were 3,443 natural gas wells completed (30% of total well completions) as compared to 3,736 natural gas wells completed in the first three quarters of 2010 (45% of total well completions). However, the trend in gas well drilling has been to longer horizontal multi-completion wells, which bodes well for High Arctic. The increase in overall industry activity levels has resulted in an increase in activity levels and revenue for the Corporation's Canadian operations.

The Corporation has three 250K UB hydraulic workover units. The increase in drilling activity of deep long reach horizontal wells had allowed the Corporation to activate one of the 250K UB hydraulic workover units in the third quarter of 2010 and it had a 27% utilization rate in the first quarter of 2011, doing work for a single customer. No units were active in the third quarter. The Corporation continues to discuss with customers the potential uses for the 250K UB units, but with continued weak gas prices and challenges in manning all of the equipment, it is uncertain if or how much the 250K UB rig will be contracted over the next 6 months. The Corporation will continue to market the 250K UB rig for the specialized applications involving the deeper shale gas wells.

International Operations

The Corporation's activity in Papua New Guinea accounted for $18.1 million in revenue for the quarter ended September 30, 2011 as compared to $19.8 million for the quarter ended September 30, 2010, representing a decrease of $1.7 million (9%). Rigs 102 and 104 were active in the quarter, while Rig 103 was on the warm stacking rate throughout the entire quarter in 2011. Rig 103 was also on the warm stack rate for much of the third quarter of 2010, but benefited from a higher stacking rate throughout the quarter with significant mobilization activities in September 2010. Rig 102 was active on its first well beginning in July 2011 and was active for the remainder of the quarter. The upgraded Rig 102 experienced some downtime in the quarter as a result of normal course startup issues. These issues have primarily been addressed and we anticipate more favorable operating margins on that rig moving forward. In the third quarter of 2010, Rig 102 was on a stacking rate with minimal costs.

Our main customer in Papua New Guinea owns two heli-portable rigs (Rigs 103 and 104) that are currently managed and operated by High Arctic under operating leases. The revenue includes amounts related to the recovery of lease related costs. The lease cost is included under oilfield services expense. In Papua New Guinea, 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. During the third quarter, High Arctic agreed to a contract extension for Rig 103 to extend the term for approximately 2 ½ years to December 17, 2013, which coincides with the term of Rig 104 and the related drilling support services contract. Rig 103 is currently being prepared for mobilization to a new drilling location for further work expected to begin later in the fourth quarter. However, it is planned that the crews from Rig 104 will man the rig meaning that operations of Rig 104 will be suspended during that time. The term for Rig 102 runs until May 2014 and most recent indications from our principal customer are that the rig will continue to be active throughout the next few quarters. Long-term contracts on Rigs 102, 103 and 104 are anticipated to provide cash flow stability due to their long term nature and the less seasonal operations in PNG.

For the first three quarters of 2011, PNG revenue was essentially flat at $58.9 million compared to $59.0 million in the same period of 2010. Although margins have compressed somewhat due to the impact of a lower US dollar and changes in rates and startup costs on Rig 102, the Corporation has continued to successfully market its fleet of rental equipment and is adding equipment to meet the market demand. Moving into the remainder of 2011 and the first half of 2012, we are anticipating improving margins for Rig 102 due to reduced downtime and additional revenue and profitability as new matting and equipment rental contracts come on stream in the fourth quarter of 2011 and into 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 Corporation 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 66.9% in the quarter ended September 30, 2011, compared to 66.2% in the same period of 2010. Oilfield services expense was $19.6 million in the three months ended September 30, 2011; an increase of 2% as compared to the three months ended September 30, 2010 during which oilfield services expense was $19.2 million.

The increase in oilfield service expense, as a percentage of revenue, for the nine months ended September 30, 2011 was primarily due to higher operating costs in PNG combined with pricing concessions and startup issues on Rig 102, in addition to repair and maintenance costs in the Canadian operations as a percentage of revenue. The Corporation undertook a maintenance and refurbishment program during the downtime of the second quarter which should benefit future quarters.

Oilfield services operating margin was $9.7 million, or 33.1% of revenue, compared to $9.8 million, or 33.8% of revenue, in the third quarter of 2011 compared to the third quarter of 2010. Operating margins in Canada improved compared to the same quarter of last year as a result of improved utilization and pricing, combined with cost reduction and lower repair costs in Canada. These improvements were offset by the additional costs in PNG as previously mentioned, together with the pricing concessions on contract renewals.

Operating margins for the first three quarters, as a percentage of revenue, were 31.0% and 35.0% for 2011 and 2010, respectively. Operating margins, as a percentage of revenue, are anticipated to improve as implemented pricing increases combined with anticipated strong activity levels continue in Canada and in PNG as operational efficiency improves on Rig 102 and new matting and rolling stock rental contracts commence. Management continues to monitor oilfield service expenses and expects to see some wage pressures in the coming periods 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

	Three Months Ended September 30			Nine Months Ended September 30		
$ millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
General and administrative	**1.8**	**1.7**	**(0.1)**	**5.7**	**5.9**	**0.2**
% of Revenue	**6.1%**	**5.9%**		**6.3%**	**6.8%**	

General and administrative expenses (G&A) for the three months ended September 30, 2011 were $1.8 million compared to $1.7 million for the three months ended September 30, 2010. G&A costs were up by $0.1 million due to higher facility costs, although partially offset by personnel costs. For the nine months ended September 30, 2011, G&A was $5.7 million compared to $5.9 million for the nine months ended September 30, 2011, representing a decrease of $0.2 million (3%). This decrease in costs was mainly attributable to lower facility, insurance and legal costs.

Share-based Compensation

	Three Months Ended September 30			Nine Months Ended September 30		
$ millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Share-based compensation	**0.4**	**0.7**	**0.3**	**2.3**	**0.7**	**1.6**
% of Revenue	**1.3%**	**2.4%**		**2.5%**	**1.0%**	

Share-based compensation expense of $0.3 million (2010 – 0.7 million) for the three months ended September 30, 2011 and $2.1 million (2010 $0.7 million) for the nine months ended September 30, 2011 was recognized for the executive and director share incentive plan (*see Note 13 of the Interim Financial Statements*). In addition to that, $0.1 million of share-based compensation expense for the stock option plan was recognized for the three months ended September 30, 2011 (2010 – nil)

and $0.2 million for the nine months ended September 30, 2011 (2010 – nil) based on amortizing any expense over the vesting period using the Black-Scholes model.

Amortization

	Three Months Ended September 30			Nine Months Ended September 30		
$ millions	2011	2010	Change	2011	2010	Change
Amortization	**2.5**	**2.0**	**(0.5)**	**6.5**	**5.9**	**(0.6)**
% of Revenue	**8.5%**	**6.9%**		**7.2%**	**6.9%**	

Amortization for the three and nine months ended September 30, 2011 was higher than the comparable periods in 2010 as a result of the capital expenditures in 2011 in addition to additional amortization required 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 $0.4 million for the third quarter of 2011. Excluding this adjustment, amortization was consistent with the prior year on a percentage of revenue basis.

Foreign Exchange Loss

	Three Months Ended September 30			Nine Months Ended September 30		
$ millions	2011	2010	Change	2011	2010	Change
Foreign exchange (gain) loss	**0.8**	**(0.2)**	**(1.0)**	**0.9**	**0.3**	**(0.6)**
% of Revenue	**2.7%**	**(0.1%)**		**1%**	**0.3%**	

The Corporation has exposure to US 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 functional currency of the corporation is the Canadian dollar. The translation of foreign operations with a functional currency different from that of the Corporation is translated into Canadian dollars and resulting changes are recognized in other comprehensive income as cumulative translation adjustments. However, gains and losses must be recognized by the Canadian entities on any US dollar denominated intercompany balances in the statement of operations despite the offsetting amount recognized by the foreign subsidiary being recorded as a cumulative translation adjustment. Such gains and losses are non-cash items as they are purely intercompany offsetting amounts. For the three months ended September 30, 2011, the Corporation had net foreign exchange losses of $0.8 million compared to a $0.2 million gain for the three months ended September 30, 2010. These losses arose primarily on the translation of the U.S. dollar denominated intercompany debt owed by the Canadian parent corporation to its foreign subsidiaries and were largely triggered by a spike in the US dollar late in the third quarter. On a year to date basis, foreign exchange losses of $0.9 million were recorded compared to a loss of $0.3 million for the three months ended September 30, 2010.

Interest and Finance Expenses

	Three Months Ended September 30			Nine Months Ended September 30		
$ millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Interest and finance expense:						
Interest expense on credit facilities/long term debt	0.4	1.0	0.6	1.8	3.1	1.3
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	**0.4**	**1.0**	**0.6**	**1.5**	**4.3**	**2.8**
% of Revenue	**1.4%**	**3.4%**		**1.7%**	**5.0%**	

The principal amount of the senior debt was $18.8 million at September 30, 2011 (prior to netting of debt transaction costs of $0.4 million), compared to $36.5 million at December 31, 2010 and $41.8 million at September 30, 2010. The interest rate applicable to all loans under 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 in addition to the lower interest rates applicable to the new credit facility entered into in May, 2011 (see "Liquidity and Capital Resources -*Credit Facility*" below).

As part of a series of transactions completed on April 30, 2010 (see *Note 12 to the Interim Financial Statements*) the entire principal amount and all accrued and unpaid interest owing under the convertible debentures was converted into common shares of the Corporation. Therefore, there was no interest expense relating to the convertible debentures in the third quarter and first three quarters of 2011 compared to Nil and $0.9 million, respectively, in the same periods of 2010.

Gain on Sale of Investments

	Three Months Ended September 30			Nine Months Ended September 30		
$ millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Gain on sale of investments	-	-	-	2.0	-	2.0
% of Revenue	**-**	**-**		**2.2%**	**-**	

The Corporation recorded a gain of $2.0 million during the first quarter of 2011 (2010 – nil) arising on the sale of shares of Transeuro Energy Corp. ("Transeuro"). The shares were received as part of a settlement in 2009 of amounts owed to the Corporation by Transeuro. The shares had no carrying value as the debts 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	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Change	2011	2010	Change
Income taxes	0.8	1.4	0.6	2.8	5.3	2.5
% of Revenue	**2.7%**	**4.8%**		**3.1%**	**6.2%**	

Income tax expense primarily relates to current taxes payable in Papua New Guinea. The Corporation is not currently taxable in Canada as the result of available tax pools. The Corporation uses the liability method of tax allocation in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the income tax consequences attributable to the difference between amounts recorded in the financial statements and their respective tax bases, using a substantially enacted tax rate. 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 Corporation has not recognized any future net benefit associated with unrecognized tax pools in Canada due to the uncertainty of the Corporation's ability to use those tax pools. The Corporation does not expect to be taxable in Canada during 2011 as a result of its available tax pools.

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. The quarters after December 31, 2009 have been presented in accordance with IFRS.

	IFRS							Canadian GAAP
$ million except per share amounts	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009
Revenue	**29.3**	**24.9**	**35.9**	**33.3**	**29.0**	**22.4**	**34.6**	**26.7**
Net earnings (loss) – before discontinued operations	3.0	(0.1)	7.3	4.9	3.0	2.5	4.6	(11.7)
per share (basic)	0.07	$(0.00)	$0.17	$0.12	$0.06	$0.08	$0.51	$(1.29)
per share (diluted)	0.06	$(0.00)	$0.14	$0.12	$0.06	$0.08	$0.42	$(0.86)
Net earnings (loss) – discontinued operations	-	-	-	(0.7)	(0.1)	(0.1)	(0.1)	0.2
per share (basic)	-	-	-	$(0.01)	$0.00	$0.00	($0.01)	$0.02
per share (diluted)	-	-	-	$(0.01)	$0.00	$0.00	($0.01)	$0.01
Net earnings (loss)	3.0	(0.1)	7.3	4.2	2.9	2.4	4.5	(11.5)
per share (basic)	0.07	$(0.00)	$0.17	$0.11	$0.06	$0.08	$0.50	$(1.27)
per share (diluted)	0.06	$(0.00)	$0.14	$0.11	$0.06	$0.08	$0.41	$(0.85)

Liquidity and Capital Resources

Selected Capitalization Data (excluding Discontinued Operations). All figures presented in accordance with IFRS:

	IFRS		
$ millions except financial ratios	September 30, 2011	December 31, 2010	Change
Current assets(1)	32.4	43.4	(11.0)
Current liabilities(2)	10.9	11.6	(0.7)
Operating working capital(3)	21.5	31.8	(10.3)
Operating working capital ratio(4)	2.97	3.74	(0.77)
Total debt (including current portion)	18.4	36.5	(18.1)
Net debt	(3.1)	4.7	7.8
Total debt-to-capitalization ratio(5)	0.24	0.47	(0.23)
Cash and cash equivalents	9.3	24.3	(15.0)

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.

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. Total debt to 12-month trailing EBITDA was 0.60 suggesting a capacity for further borrowing to provide the flexibility for growth in the business. On May 6, 2011, the Corporation entered into a new $30.0 million financing agreement to replace the former term loan (see "Credit Facility" below) out of which up to $10.0 million is available to be drawn on a revolving basis.

The Corporation generated net cash from operating activities before working capital adjustments of $6.0 million during the third quarter of 2011 compared to $5.8 million in the third quarter of 2010. For the first three quarters of 2011, the Corporation generated net cash from operating activities before working capital adjustments of $19.1 million compared to $11.8 million in the first three quarters of 2010. The accounts payable and accounts receivable balances at September 30, 2011 are substantially all current which, together with the cash balance and available undrawn credit facilities, provide adequate liquidity to meet the Corporation's current operating needs. The Corporation had a cash balance of $9.3 million as at September 30, 2011 and believes it has sufficient cash to meet its cash needs for the foreseeable future.

Credit Facility

On May 6, 2011, the Corporation entered into a $30.0 million financing agreement with a new lender for new credit facilities to replace the former one year term loan. The main components of the new credit facilities are a two year $20.0 million committed capital loan with a four year amortization, a two year $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 High Arctic and by unlimited guarantees of its foreign subsidiaries.

The new term loan is subject to interest at prime rate plus 1.75% and has a maturity date of June 30, 2013. The prime rate is currently 3.0% meaning the interest rate on the new term loan is currently running at an equivalent annual rate of 4.75%. The corporation is required to make quarterly principal payments on the term loan of $1.3 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 September 30, 2011, the Corporation 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 September 30, 2011, the Corporation did not have any amounts drawn against the revolving operating loan.

As at the end of September 30, 2011, only $18.7 million (prior to the netting of debt transaction costs) of capital loan was outstanding of the full $30.0 million credit facility, and $10.0 million of revolving capacity is available for future operations and growth. Total net debt (see "Financial Measures") at September 30, 2011 was a negative $3.1 million compared to $4.7 million at December 31, 2010.

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

Ratio	Threshold	Ratio September 30, 2011
Funded Debt to EBITDA[(1)]	2.00:1 Maximum	0.60
Debt to Tangible Net Worth[(2)]	2.50:1 Maximum	0.51
Current Ratio[(3)]	1.50:1 Minimum	3.13
Fixed Charge Coverage Ratio[(4)]	1.25:1 Minimum	10.72

(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 from May 1, 2011 to September 1,2011 are considered as funded.

Cash Flow

Cash – Operating Activities – Continuing Operations

For the third quarter ended September 30, 2011, cash provided by operating activities was $6.0 million before reflecting working capital adjustments, compared to cash provided by operating activities before working capital adjustments of $5.8 million in the third quarter ended September 30, 2010. After working capital adjustments, cash provided by (used in) operating activities in the third quarter ended September 30, 2011 was ($2.6) million, compared to cash provided by (used in) operating activities of $5.8 million in the second quarter ended September 30, 2010. This reflects a large increase in accounts receivable due to the significant increase in activity in Canada after a prolonged spring breakup in the second quarter of this year. The Corporation's accounts receivable balance at September 30, 2011 was $18.3 million of which $0.4 million was greater than 90 days overdue. 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.

Net cash generated from operating activities for the nine months ended September 30, 2011 was much improved at $14.4 million compared $7.9 million for the nine months ended September 30, 2010. This is reflective of improved cash from operations before the changes in working capital and the cash restructuring costs in operating cash flows in 2010.

Investing Activities – Continuing Operations

For the quarter ended September 30, 2011, net capital expenditures to acquire rigs, equipment and other operational assets were $4.5 million, compared to net expenditures of $1.7 million for the quarter ended September 30, 2010 (both amounts after the change in accounts payable related to constructing rigs and equipment). Total capital expenditures during the first three quarters of 2011 were $12.0 million (net of a $1.5 million reimbursement) compared to $4.5 million during the first three quarters of 2010. Most of the capital expenditures in 2011 were directed at new equipment purchases for Papua New Guinea. During the first three quarters of 2010, the Corporation sold three rigs. The rigs were not being actively utilized in the business and were classified as assets held for sale. The Corporation received proceeds of $14.7 million ($6.6 million related to discontinued operations).

Financing Activities – Continuing Operations

The Corporation has made significant repayments of its credit facility, reducing the outstanding principal balance by $1.3 million during the third quarter of 2011 and by $17.7 million for the first three quarters of 2011.

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 57% of the Corporation's revenue for the quarter ended September 30, 2011 (48% for the nine months ended September 30, 2011) and 53% of its accounts receivable at September 30, 2011. The second significant customer is a major Canadian exploration and production company which represents approximately 10% of the Corporation's revenue for the quarter ended September 30, 2011 (12% for the nine months ended September 30, 2010) and 3% of the Corporation's accounts receivable at that date. 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 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 claim is without merit.

Inventory

The Corporation has been supplied with an inventory of spare parts with a value ofUS$5.2 million by a customer in Papua New Guinea. The inventory is owned by the customer and has not been recorded on the books of High Arctic. At the end of the contract, the Corporation must return an equivalent inventory to the customer. The Corporation believes it currently has sufficient inventory on hand to meet that obligation and accordingly no provision has been made for any potential shortfall.

Other

The Corporation 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 Corporation in the performance of its obligations under the contract. Under the terms of the contract, the Corporation could be obligated to provide up to five rigs that may not be available if requested. As at September 30, 2011, the Corporation 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 Corporation incurs contractual obligations.

The following are the Corporation's contractual obligations as at September 30, 2011:

	Payments Due by Period				
$ millions	**Total**	**Less than 1 Year**	**1 – 3 Years**	**4 – 5 Years**	**After 5 Years**
Credit facility obligations[1]	18.8	5.0	10.0	3.8	-
Operating lease obligations	1.4	0.5	0.7	0.2	-
Total obligations	20.2	5.5	10.7	4.0	-

(1) Excludes debt transaction costs of $0.4 million

Outlook

While the third quarter started slowly in July, domestic activity levels rebounded strongly through the remainder of the third quarter and have continued to remain strong moving into the fourth quarter. 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. Exploration and development activity in the unconventional natural gas and oil plays is anticipated to maintain its momentum with continued focus on drilling horizontal wells incorporating multi-stage completions. 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. The emphasis on oil and liquids-rich gas completions activity is expected to continue due to the strong oil and natural gas liquids prices. Overall, the price of crude oil and natural gas liquids is anticipated to remain strong. These favourable market conditions in Canada have resulted in improved day rates and other pricing for the Corporation's services.

High Arctic's activity levels are impacted to a much greater degree by natural gas drilling than oil well drilling. Management is not anticipating a meaningful increase in the price of natural gas during 2011 and throughout 2012. However, growth in the unconventional shale gas plays which are typically horizontal and deeper in nature has continued to gain in momentum. Technology that has typically been used on the unconventional shale gas development is now being used to revisit mature natural gas areas. The Corporation expects to benefit from the strong levels of drilling activity aimed at the liquids rich natural gas fields. As a result, demand for snubbing and well servicing operations is expected to remain solid despite the low natural gas prices. The completions activity in the Montney, and other deep basin plays of northwest Alberta and northeast British Columbia are expected to remain robust in 2012 as those regions are amongst the most economic natural gas plays in North America especially those rich in natural gas liquids. The Corporation's equipment is well suited for the longer lateral multi-completion wells. Continued concerns about global economic conditions may temper activity somewhat, particularly if accompanied by a drop in oil prices.

The Corporation 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 moving into the busy winter months. The Corporation's goal is to maintain and add additional operating crews to keep pace with the anticipated demand for its equipment.

The benefits of High Arctic's geographic diversification have continued to be evident throughout the year. Operations in PNG have added stability to cash flows for the Corporation as Rigs 103 and Rig 104 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 the country. It is expected that only one of Rig 104 and Rig 103 will be drilling at any one time for the remainder of 2011 and into 2012 with crews shared between the rigs. Efforts are being made to find additional work to utilize both of those drilling rigs as the oil companies operating in the country firm up their drilling plans beyond 2011. Rig 102 commenced workover operations in July, 2011 following completion of an upgrade during the first half of the year, which should offset the drop in the activity of the drilling rigs. The Corporation expects that Rig 102 will remain active through to at least June 2012. While Rig 102, a workover rig, has a lower day rate than Rig 103, a drilling rig, High Arctic does not incur a lease expense on Rig 102 allowing it to earn better margins on the Rig 102 operations. The US dollar has shown some recent strength which will benefit the Corporation if the strength holds.

A recent 18 month contract award for rig matting and related support to a major oil and gas operator is anticipated to add to future revenue and profitability and demonstrates the opportunity for future service expansion of that product line. High Arctic provides drilling support equipment on a rental basis to a number of customers in Papua New Guinea. The Corporation will continue to pursue opportunities to expand that business line and increase its rental fleet. During the first nine months of 2011, High Arctic had net capital expenditures of $12.0 million of which $9.3 million related to the purchase of rental equipment in Papua New Guinea. These equipment additions should add to revenue and profitability for the PNG operation somewhat in the fourth quarter and particularly into 2012 as they are put fully into service.

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 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 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.

Customer Concentration

Notwithstanding its large customer base, the Corporation has one customer that represents approximately 57% and 48% of consolidated revenue for the three and nine months ended September 30, 2011, respectively and 53% of its accounts receivable at September 30, 2011. Services are provided to that customer in Papua New Guinea. Management has assessed this customer as creditworthy and the Corporation has had no history of collection issues with the customer.

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 the term loan is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. For the nine months ended September 30, 2011, a 1% nominal change in the interest charged to the Corporation under its credit facility would have changed interest expense by $0.3 million.

Income Tax Risk

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

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

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 failure to pay increases due to a reduction in customers' cash flow. Failure to collect accounts receivable from customers could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. High Arctic generally grants unsecured credit to its customers; however, it evaluates all new customers, as appropriate, and analyzes and reviews the financial health of its current customers on an ongoing basis.

Risk of Foreign Operations

The Corporation operates in international locations, including Papua New Guinea, 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 Corporation 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 Corporation's results. The majority of the Corporation's international revenue and expenses are transacted in U.S. dollars and the Corporation does not actively engage in foreign currency hedging.

For the nine months ended September 30, 2011, a 1% nominal change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $0.1 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 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 internationally. Failure of suppliers to deliver supplies and materials in a timely and efficient manner would be detrimental to the Corporation'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 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 Annual Information Form for the year ended December 31, 2010, filed on SEDAR at www.sedar.com.

Critical Accounting Estimates

The Corporation's significant accounting policies are described in Note 3 to the Interim Financial Statements for the period ended September 30, 2011. The preparation of the Corporation's Interim 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 Corporation's financial results include the allowance for doubtful accounts, depreciation and amortization, the fair value of financial instruments, 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 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 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.

Fair value of financial instruments
The Corporation'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 Corporation's calculation of income taxes involves many complex factors as well as the Corporation'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 Corporation's shares. The fair value of the shares under the share incentive plan is recognized based on the market value of the Corporation'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 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 ("Incentive Shares") pursuant to the Corporation's Executive and Director Share Incentive Plan (the "Plan") (see *Note 13 to the Interim Financial Statements*). The amount of each loan was a maximum of 50% of the estimated amount of such taxes payable by the Borrower. The participants of the Plan are subject to taxation immediately upon issuance of the Incentive Shares despite the shares being held by a trustee as part of a three year vesting arrangement under the 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 June 30, 2011, the total amount outstanding 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 Corporation until December 16, 2008 (the "Shareholder") made various loans and advances to the Corporation. Interest expense for the nine months ended September 30, 2010 includes $0.2 million accrued to March 31, 2010. As part of the restructuring transactions completed on April 30, 2010, the Corporation issued 6,593,677 common shares to the Shareholder and companies controlled by him in settlement of the outstanding obligations owing by the Corporation on that date with a recorded amount of approximately $7.2 million.

International Financial Reporting Standards

The Corporation 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, High Arctic restated its operating results as if it had always prepared financial results in accordance with IFRS.

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

IFRS requires that comparative financial information be provided. As a result, the first date at which the Corporation 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.

Following is a summary of the IFRS exemptions adopted by the Corporation:

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 Corporation, 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 Corporation 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 expected to result in a change in the consolidation decisions made by the Corporation.

IFRS 11
IFRS 11, "Joint Arrangements"; changes in the definition for the 'types' of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. Entities that participate in joint operations will follow accounting much like that for joint assets or joint operations today. Entities with existing joint arrangements or that plan to enter into new joint arrangements will be affected by the new standard. The Corporation does not have any joint arrangements and does not expect this change to have any impact on its reporting.

IFRS 12 & IAS 28
IFRS 12, "Disclosure of Interests in Other Entities", sets out the required disclosures for entities reporting under the two new standards, IFRS 10, "Consolidated financial statements", and IFRS 11, "Joint arrangements"; it replaces the disclosure requirements currently found in IAS 28, "Investments in associates". The existing guidance and disclosure requirements for separate financial statements are unchanged. The new standard, IFRS 12, requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Corporation is analyzing the impact the new standard will have on its consolidated financial statements.

IFRS 13
IFRS 13, "Fair Value Measurement", defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. The IFRS 13 applies to IFRS standards that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Corporation is currently evaluating the impact of this standard on its consolidated financial statements.

Comparative Figures

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

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

The Corporation'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 Corporation has adopted the Committee of Sponsoring Organizations of the Treadway Commission framework to design ICFR. With the assistance of external consultants, throughout 2009, the Corporation 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 2010, the Corporation 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 Corporation is continually improving its ICFR, no material changes were made during the nine month period ended September 30, 2011 that would materially affect or are reasonably likely to materially affect the Corporation’s ICFR.

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:

- 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 2011 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;
- worldwide supply and demand for oilfield services;
- treatment under governmental regulatory regimes; and
- general economic conditions.

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 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 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.

Subsequent Events

There have been no material events subsequent to September 30, 2011 up to the date of this report.

Financial Measures

This MD&A contains references to certain financial measures that do not have any standardized meaning prescribed by IFRS and 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 Corporation's performance prior to consideration of how operations are financed or how results are taxed or how depreciation and amortization or share-based compensation affects results. EBITDA is not intended to represent net earnings calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of net earnings to EBITDA for the three and nine months ended September 30, 2011 and 2010 and includes the impact of discontinued operations.

	IFRS	
	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Net earnings	3.0	3.0
Add (deduct)		
Interest and finance expenses	0.4	1.0
Income taxes	0.8	1.4
Amortization	2.5	2.0
Share-based compensation	0.4	0.7
Loss on sale of property and equipment	-	0.1
EBITDA	**7.1**	**8.2**
Add (deduct)		
Foreign exchange (gain) loss	0.8	(0.2)
Adjusted EBITDA	**7.9**	**8.0**

	IFRS	
	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net earnings	10.2	10.0
Add (deduct)		
Interest and finance expenses	1.5	4.3
Income taxes	2.8	5.3
Amortization	6.5	5.9
Share-based compensation		0.7
(Gain) on restructuring transactions	-	(2.7)
Loss on sale of property plant and equipment	-	0.1
(Gain) on sale of investments	(2.0)	-
EBITDA	**21.3**	**23.6**
Add (deduct)		
Foreign exchange gain (loss)	0.9	0.3
Adjusted EBITDA	**22.2**	**23.9**

Adjusted EBITDA
This measure is used by management and investors to analyze EBITDA (as defined above) prior to the effect of foreign exchange gains or losses, and is not intended to represent net earnings as calculated in accordance with IFRS

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 and investors to analyze overall and segment 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 and segment 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 Corporation. 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 liquid working capital balances are collected. It is calculated as total debt (including current portion) less operating working capital (as calculated above).

Market capitalization
Market capitalization is used by management and the investment community to calculate the approximate fair value of the Corporation's equity and is calculated as the total number of shares outstanding multiplied by the Corporation's share price

Additional Information

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