High Arctic Energy Services Inc.
Management Discussion and Analysis
For the year ended December 31, 2010

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 year ended December 31, 2010 as compared to the same period in 2009. 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 audited consolidated financial statements and accompanying notes for the year ended December 31, 2010 (the "Financial Statements"). Readers should also read the "*Forward-Looking Statements*" contained at the end of this document.

The Financial Statements and the MD&A are reported in Canadian dollars unless otherwise stated. The financial data presented herein and in the Financial Statements has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") on a going concern basis.

The MD&A is dated March 10, 2011.

Corporate Profile

High Arctic is an oilfield services company currently operating primarily in Western Canada and Papua New Guinea. Headquartered in Red Deer, High Arctic trades under the symbol HWO on the Toronto Stock Exchange.

The Canadian operation is focused on the provision of snubbing services and the supply of nitrogen to a large group of oil and natural gas exploration and production companies operating in Western Canada. The Corporation had 21 snubbing units, 10 nitrogen pumpers, 5 nitrogen transports and 3 rack and pinion underbalanced workover units in Canada at December 31, 2010. High Arctic is active in Papua New Guinea where it provides contract drilling and workover services.

Outstanding Share Data

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

As at December 31, 2010 and March 10, 2011 there were 250,918,722 issued and outstanding common shares. That number includes 35,500,000 shares issued under the Share Incentive Plan (*see Note 7 of the Financial Statements*) some of which may be cancelled under certain circumstances related to a three year vesting period requirement. A total of 25,091,872 stock options (being 10% of all outstanding shares) are available for grant under the Stock Option Plan. As at December 31, 2010, a total of 5,727,400 share options were outstanding and expire at various dates up to 2015, at exercise prices ranging from $0.13 to $12.61 per share.

The Corporation's common shares trade on the Toronto Stock Exchange under the symbol HWO. The closing price of the shares on March 9, 2011 was $0.245 per share. Based upon 250,918,722 issued common shares, the Corporation has an approximate market capitalization of $61.5 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 volatile commodity prices has on industry activity levels. In addition, the Corporation's international financial results are impacted by fluctuations in foreign exchange rates and, in particular, the U.S. dollar to Canadian dollar exchange rate.

	2010					2009				
Average for the period	**Year**	**Q4**	**Q3**	**Q2**	**Q1**	**Year**	**Q4**	**Q3**	**Q2**	**Q1**
Oil and natural gas prices										
West Texas Intermediate *(US $ /bbl)*	$79.43	$85.03	$76.17	$77.89	$78.63	$61.03	$76.07	$68.20	$56.88	$43.41
AECO *(C$ /Mcf)*	$4.13	$3.58	$3.72	$3.86	$5.36	$4.14	$4.28	$3.02	$3.66	$5.63
Other industry indicators										
Well completions in Western Canada(1)	13,575	5,352	2,767	2,323	3,133	9,351	1,746	1,667	1,504	4,434
Gas well drilling in Western Canada(1)	5,868	2,132	1,124	1,122	1,490	5,082	578	661	894	2994
Active drilling rigs in Western Canada(1)	327	399	323	154	431	215	273	176	92	320
Average drilling rig utilization rates(1)	41%	50%	41%	19%	54%	25%	32%	21%	11%	37%
US/Canadian dollar exchange rate	0.971	0.987	0.962	0.973	0.961	0.880	0.946	0.910	0.858	0.803

(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 2010 by 30% ($18.40 US per barrel) to an average price of $79.43 US per barrel as compared to the 2009 average price of $61.03 US per barrel. Natural gas prices have continued to remain relatively weak. The AECO reference natural gas price averaged $4.13 CAD per Mcf for 2010 as compared to $4.14 CAD per Mcf for 2009. The current natural gas price remains of concern to the industry and should continue to have a negative impact on natural gas drilling activity in Western Canada.

The Canadian oilfield services sector is subject to seasonality with peak levels in the first and fourth quarters. The CAODC reported 5,352 wells were completed in Canada during the fourth quarter of 2010; an increase of 207% from the 1,746 wells completed in the same period in 2009. For the year 2010 CAODC reported 13,575 wells were completed as compared to 9,351 wells completed in 2009, a 4,224 (45%) increase in well completions.

High Arctic's Canadian business is primarily dependent on natural gas well drilling and completions. Gas well completions in the fourth quarter of 2010 totalled 2,132, which was an increase of 1,554 (269%) gas wells as compared to the same period in 2009 when 578 natural gas wells were completed. In 2010, 5,868 natural gas wells were completed, an increase of 786 (15%) increase over the 5,082 natural gas well completions in 2009. The Corporation experienced improved equipment utilization rates in 2010 partially due to first call status with two major customers in Canada and through the increased industry activity levels. The result was that High Arctic's Canadian revenue improved significantly in 2010 to $39.1 million, an increase of $11.9 million (44%) as compared to 2009 Canadian revenue of $27.2 million.

The Corporation has significant international operations in Papua New Guinea where it provides contract drilling services and workover 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. These contracts are denominated in United States dollars. The continued strength of the Canadian dollar as compared to the U.S. dollar had a negative impact on the financial results in 2010. A 1% increase in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $0.1 million decrease in earnings.

Selected Comparative Financial Information

	For the Year Ended December 31		
$ millions (except per share amounts)	**2010**	**2009**	**2008**
OPERATING RESULTS			
Revenue - continuing operations	119.3	122.6	145.0
- discontinued operations	-	9.9	23.5
- total	119.3	132.5	168.5
Net earnings (loss) from continuing operations	13.7	(13.3)	(24.3)
- per share (basic and diluted)	$0.09	$(0.29)	$(0.57)
Net earnings (loss)	12.8	(16.5)	(39.6)
- per share (basic and diluted)	$0.08	$(0.36)	$(0.93)
Cash flow from continuing operations activities(1)	18.4	8.0	22.1
EBITDA(2) - continuing operations	30.6	23.3	37.8
- discontinued operations	(0.8)	(0.2)	(10.9)
- total	29.8	23.1	26.9
Operating earnings(3)			
- continuing operations	22.8	14.0	25.0

(1) Cash flow from continuing operations activities is defined as cash provided by (or used in) continuing operating activities before the net change in non-cash operating assets and liabilities.

(2) EBITDA is a Non-GAAP measure (*see Net Earnings to EBITDA*).

(3) Operating earnings (loss) is defined as net earnings (loss) before interest and financing fees, gains or losses on sale of property, equipment and investments, gain on restructuring transactions, gain on the sale of joint venture interest, impairment on assets held for sale and income taxes.

Highlights for 2010

- Net earnings were $12.8 million ($0.08 per share) during 2010, a reversal of the net loss of $16.5 million ($0.36 per share) reported for 2009. The Corporation had positive net earnings in each quarter of 2010.

- EBITDA increased by $6.7 million (29%) to $29.8 million for 2010 as compared to EBITDA of $23.1 million for 2009.

- Cash generated by operating activities from continuing operations during 2010 was $18.4 million, a major improvement from the cash generated by operating activities of $8.0 million in 2009.

- The Corporation normalized its debt position, exiting 2010 with a debt to EBITDA ratio of 1.2 times, by reducing its debt to $36.5 million at December 31, 2010 from $100.3 million at December 31, 2009. Net debt, after deducting the positive working capital position, was only $4.6 million as at December 31, 2010; a $64.7 million improvement over net debt of $69.3 million as at December 31, 2009. The Corporation's net debt to EBITDA ratio was 0.15 as at December 31, 2010.

- The Canadian business enjoyed a major turnaround as revenue increased by $11.9 million (44%) to $39.1 million in 2010 as compared to revenue of $27.2 million in 2009. Revenue from international operations was $80.2 million during 2010 which was a decrease of $15.2 million (16%) over the 2009 revenue of $95.4 million.

Overview of 2010 Results

During 2010 management continued to focus on its core businesses in Canada and Papua New Guinea and also on reducing the Corporation's debt. On April 30, 2010 the Corporation completed a series of restructuring transactions to reduce debt levels and to meet the requirements for an extension of the credit facilities (*see Note 4 of the Financial Statements*). Under the restructuring transactions, the Corporation issued a total of 169,280,257 common shares. The shares were issued in settlement of all outstanding indebtedness and claims owing by the Corporation to related parties and converted the Corporation's outstanding convertible debentures into common shares in full settlement of all outstanding principal and accrued interest owed. As part of the restructuring transactions, the Corporation entered into a one year term loan facility with its senior lenders whereby the outstanding balances under a revolving credit facility and a bridge loan (collectively the "Original Senior Debt") were combined into a single $43.9 million term loan facility with a maturity date of April 30, 2011. At December 31, 2010 the term loan facility had been reduced to $36.5 million.

Oil and gas drilling activity in Canada was at higher levels in 2010 compared to 2009, especially after the first quarter of 2010. Most of the increased activity was in oil well drilling, however, there was also an increase of 15% in gas well completions during 2010 as compare to 2009. As a result of the increased activity, the prices that the Corporation could charge for its services in Canada remained relatively stable as compared to pricing declines seen in 2009. The Corporation's international activity is primarily in Papua New Guinea where services are provided under longer term contracts and are less affected in the short term by fluctuations of oil and gas prices.

The Corporation generated $119.3 million in revenue from continuing operations during 2010; a decrease of $3.3 million (3%) from revenue of $122.6 million in 2009. Revenue in the Canadian operations increased while there was a decline in revenue from the Corporation's international operations. The increase in drilling activity in Canada resulted in the Canadian operation's revenue increasing by $11.9 million (44%) to $39.1 million in 2010 compared to $27.2 million in 2009.

Revenue from continuing international operations decreased by $15.2 million (16%) to $80.2 million during the year ended December 31, 2010 as compared to revenue of $95.4 million during the year ended December 31, 2009. The Corporation's international operations are mainly in Papua New Guinea where it provides contract drilling services. The decrease in revenue is mainly the result of the Corporation's Rig 102 being on a reduced standby rate for all of 2010 whereas in 2009 it was on full operating rate for approximately half of the year. The other main contributing factor is the significant increase in the value of the Canadian dollar versus the U.S. dollar.

There was no revenue generated from discontinued operations in 2010 as compared to $9.9 million in revenue during 2009. The revenue generated by Optimal Pressure Drilling Services (Optimal) accounted for $8.4 million of the $9.9 million of discontinued revenue reported in 2009. The Corporation sold its investment in Optimal in September, 2009.

Operating earnings from continuing operations was $22.8 million in 2010 as compared to operating earnings of $14.0 million in 2009. During 2009 the Corporation had a foreign exchange loss of $6.4 million which contributed to the lower operating earnings. In 2010 the Corporation had a foreign exchange loss of $1.8 million. Overall, the improved industry conditions in Canada have resulted in the improved operating earnings for the Corporation. Continuing operations had EBITDA[1] of $30.6 million in 2010 compared to $23.3 million in 2009. The Corporation recorded net earnings of $12.8 million ($0.08 per share) in 2010, as compared to a net loss of $16.5 million ($0.36 per share) in 2009. Continuing operations had net earnings of $13.7 million ($0.09 per share) during 2010 as compared to a net loss of $13.3 million ($0.29 per share) in 2009.

The cash and cash equivalents balance declined by $3.3 million during 2010 to $24.3 million at December 31, 2010. The Corporation reduced its term loan (*see Note 4 of the Financial Statements*) by $28.9 million to $36.5 million during 2010. Before consideration of working capital adjustments, cash generated by operating activities from continuing operations during 2010 was $18.4 million, compared to cash generated in operating activities of $8.0 million in 2009 (*see Cash Flow*). Capital spending related to continuing operations was $6.7 million during 2010 which was primarily for new revenue generating assets for the Corporation's Papua New Guinea operations and upgrade capital in Canada. This compares to capital spending of $3.6 million in 2009.

Net Earnings to EBITDA

EBITDA is a non-GAAP measure calculated by looking at net earnings before the deduction of interest expense, taxes, depreciation and amortization. The following table provides a quantitative reconciliation of net earnings to EBITDA split to show the effect of the Continuing Operations and Discontinued Operations for years ended December 31, 2010 and 2009.

For the Year Ended December 31

	2010			2009		
$ millions	Continuing Operations	Discontinued Operations	Consolidated	Continuing Operations	Discontinued Operations	Consolidated
Net earnings (loss)	**13.7**	**(0.9)**	**12.8**	**(13.3)**	**(3.2)**	**(16.5)**
Add (deduct)						
Interest and financing fees	5.3	0.1	5.4	11.6	0.1	11.7
Taxes	6.4	-	6.4	7.2	0.3	7.5
Impairment on assets	-	-	-	11.8	0.3	12.1
Amortization	7.8	-	7.8	9.3	2.8	12.1
(Gain) Loss on sale of property and equipment	-	-	-	(0.9)	(0.5)	(1.4)
(Gain) on restructuring transactions	(2.6)	-	(2.6)			
(Gain) on sale of Optimal	-	-	-	(2.4)	-	(2.4)
EBITDA	**30.6**	**(0.8)**	**29.8**	**23.3**	**(0.2)**	**23.1**

Discontinued Operations

The Corporation reported the operations in the Middle East region, including Tunisia and India, as discontinued on December 31, 2008. These areas had ongoing losses and negative cash flow leading to cash funding requirements that could not be sustained. In keeping with the Corporation's strategy of focusing on its core businesses and to exit unprofitable areas, the decision was made to discontinue operations in these areas to the extent possible. The Corporation had a net loss of $0.9 million in 2010 as compared to a net loss of $0.8 million in 2009. The increase in the net loss in 2010 was the result of the Corporation taking a write-down on a receivable for $350 thousand.

On September 25, 2009 the Corporation concluded the sale of its 51% share of the Optimal joint venture to its joint venture partner. High Arctic's share of the net loss for the year ending December 31, 2009 was $2.4 million.

Operating Results for the Years Ended December 31, 2010 and 2009

(Note: amounts below exclude amounts from discontinued operations)

	Years Ended December 31					
$ millions	**2010**	**% of Revenue**	**2009**	**% of Revenue**	**Change**	**%**
Revenue						
Canada	39.1		27.2		11.9	44
International	80.2		95.4		(15.2)	(16)
Total Revenue	**119.3**		**122.6**		**(3.3)**	**(3)**
Oilfield services expense	77.3	65	84.7	69	7.4	9
% of Revenue	65%		70%		5%	
Oilfield services operating margin	42.0	35	37.9	31	4.1	11
% of Revenue	35%		30%		5%	
Equipment utilization in Canada	54%		32%		22%	69%
CAODC drilling utilization	41%		25%		16%	64%

Operations in Canada

In Canada, 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. Oilfield activity has been stronger in 2010 than original projected and well above the 2009 levels. A total of 13.575 wells were completed during 2010 in Western Canada which was above the projected total of 11,587 wells to be drilled and 45% above the 2009 total of 9,351 well completions. There was a shift towards more oil well drilling in 2010 and most of the increase in well completions during the year was due to the oil well drilling. There were 5,868 natural gas wells completed in 2010 (43% of total well completions) as compared to 5,082 natural gas wells completed in 2009 (54% of total well completions). A stronger fourth quarter of 2010 resulted in gas well completions increasing by 15% (786 wells) for 2010 as compared to 2009. The trend in gas well drilling has been to deeper multi completion wells. The Corporation's activity in the Canadian market correlates to a greater degree to the number of natural gas wells drilled.

The increase in overall industry activity levels has resulted in an increase in activity levels and revenue for the Corporation's Canadian operations. There also has been relief from the downward pressure the Corporation was seeing in the latter half of 2009 on the day rates it charges its customers. However, there was not any significant increase in the day rates throughout 2010. Canadian revenue increased by $11.9 million (44%) to $39.1 million during 2010, from $27.2 million generated in 2009.

The Corporation's overall Canadian equipment utilization rate was 54% for 2010, compared to 32% for 2009. These compare to the CAODC rig utilization averages of 41% and 25% for 2010 and 2009, respectively, indicating the Corporation's utilization comparatives are in line with industry averages. Equipment utilization is determined by dividing the number of days a unit operates by the number of days in the relevant period.

The Corporation's largest business line in Canada is snubbing services. Utilization rates for the snubbing units for 2010 was 41% as compared to 2009 utilization of 39%. The small increase in utilization in snubbing services was affected by a shortage of experienced field personnel. The largest increase in utilization came from the Corporation's nitrogen services product line. Nitrogen equipment utilization was 74% in 2010; an increase from the 44% utilization in 2009.

The Corporation has three 250K UB hydraulic workover units. Management had made the decision during the first quarter of 2009 to not actively market these units until market conditions improved. The improvement in the market has allowed the Corporation to activate one of the 250K UB hydraulic workover units in the third quarter of 2010 and it had a 90% utilization rate in the third quarter and a 79% utilization rate in the fourth quarter of 2010, doing work for a single customer. With the continued weak gas prices, it is uncertain if or how much the 250K UB rig will be contracted in 2011. The Corporation will continue to market the rig for applications involving deeper shale gas wells.

International Operations

The Corporation's activity in Papua New Guinea accounted for $78.3 million in revenue for the year ended December 31, 2010 as compared to $94.8 million for the year ended December 31, 2009. Services in Papua New Guinea are provided under longer term contracts rather than the well to well contracts that are common in Canada.

Our main customer in Papua New Guinea owns three rigs (Rig 101, 103 and 104) that are 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 owns a hydraulic workover rig (Rig 102) and drilling support equipment.

Rigs 103 and 104 are the primary heli-portable drilling rigs operating in Papua New Guinea and each were under contract until December 31, 2010. The Corporation has obtained extensions of the contracts for Rig 104 and the drilling support services for three years to December 17, 2013, subject to certain early termination rights.

Rig 104 was active for most of 2010 and Rig 103 was active during the first quarter of 2010 and remobilized late in the third quarter of 2010 to drill wells for other customers. Rig 102, the Corporation's hydraulic workover rig, was on a stack rate for all of 2010. In December of 2010 the Corporation signed a new three year contract for Rig 102. Work began in late 2010 to retrofit Rig 102 with a planned operational start date in the second quarter of 2011.

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 naturally adjusts to changing activity. The Corporation also took steps in early 2009 to adjust its cost structure, which included headcount reductions, wage and benefit reductions as well as engaging our vendors to help reduce overall costs. These initiatives continue to help the Corporation to control its oilfield services expense as a percentage of revenue.

Oilfield services expense was $77.3 million for the year ended December 31, 2010; a decrease of 9% ($7.4 million) from the $84.7 million for the year ended December 31, 2009. Revenue from continuing operations in 2010 was $119.3 million which was $3.3 million (3%) lower than revenue of $122.6 million in 2009. This has resulted in oilfield services expense being 65% of continuing revenue in 2010, a decrease from the 70% in 2009. The improvement for 2010 is largely attributable to the decline in revenue in Papua New Guinea and the increase in revenue in Canada. Canada has higher operating margins than Papua New Guinea.

Selected Expense Information

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

General and Administrative

	Years Ended December 31			
$ millions	**2010**	**2009**	**Change**	**%**
General and administrative	7.7	7.8	0.1	1%
% of Revenue	6.5%	6.4%	0.1%	

General and administrative expenses were relatively unchanged in 2010 versus 2009. General and administrative expenses include facility leases and cost, sales and marketing expenses, legal expenses, accounting and audit fees, management and general administrative support costs.

Share-based Compensation

	Years Ended December 31			
$ millions	**2010**	**2009**	**Change**	**%**
Share-based compensation	1.9	0.4	(1.5)	(375%)
% of Revenue	1.6%	0.0%	(1.6%)	

During 2010 a total of 3,087,500 new options were granted to the employees of the Corporation. Directors and executive management of the company did not participate in the 2010 option grants. Share-based compensation expense on all outstanding options was recognized by the Corporation for the year ended December 31, 2010 in the amount of $0.1 (2009 - $0.4 million) based on amortizing any expense over the vesting period using the Black-Scholes model. The options valued prior to December 31, 2007 used an average risk-free interest rate of 4.2%; average expected life of 5 years; expected volatility of 40% to December 31, 2007 and 75% thereafter and a weighted average estimate of distribution yield of nil. The 2008 options were valued using an average risk-free interest rate of 3.4%; average expected life of 5 years; expected volatility of 67.6% and an expected annual dividend yield of nil. The options in 2009 were valued with a weighted average expected volatility of 79.0%, a risk free interest rate of 1.61%, expected annual dividend yield of 0.0% and an expected life of 5 years. The options in 2010 were valued with a weighted average expected volatility of 96.6%, a risk free interest rate of 2.42%, expected annual dividend yield of 0.0% and an expected life of 5 years.

On September 1, 2010, the Corporation issued 35,500,000 shares under the Director and Executive Share Incentive Plan (*see Note 7 of the Financial Statements*) to a trustee for the benefit of designated directors and executive management. These shares vest to the participant over a 3 year period and a share capital amount of $0.165 per share will be recorded as the related stock based compensation expense is recognized over the vesting period. During 2010, an amount of $1.8 million was recognized in share based compensation for the incentive shares.

Amortization

$ millions	Years Ended December 31			
	2010	**2009**	**Change**	**%**
Amortization	7.8	9.3	1.5	16
% of Revenue	6.5%	7.6%	1.1%	

The decrease in amortization is due to the lower carrying value of the equipment largely due to write downs and the reclassification during 2007, 2008 and 2009 of certain property and equipment to Assets Held for Sale that are not depreciated. As at December 31, 2010 the recorded amounts of the assets held for sale was $1.7 million (2009 - $16.6 million) as management's estimate of the realizable value.

Foreign Exchange (Gain) Loss

$ millions	Years Ended December 31			
	2010	**2009**	**Change**	**%**
Foreign exchange loss	1.8	6.4	4.6	72
% of Revenue	1.5%	5.2%	3.7%	

The Corporation has exposure to U.S. dollar revenues and expenses, primarily through its international operations in Papua New Guinea and to local currencies including the Kina in Papua New Guinea. The U.S. dollar continued to lose value against the Canadian dollar during 2010. This resulted in a foreign exchange loss in 2010. In 2009, however the U.S. dollar weakened significantly against the Canadian for the year going from 1.2194 per Canadian dollar at January 1, 2009 to 1.0494 at December 31, 2009. The weakening U.S. dollar resulted in the Corporation having a foreign exchange loss of $6.4 million in 2009 as compared to $1.8 million in 2010.

Interest Expense and Financing Fees

	Years Ended December 31			
$ millions	**2010**	**2009**	**Change**	**%**
Interest expense and financing fees	5.2	11.3	6.1	54
Financing fees	0.1	0.3	0.2	67
Total interest expense and financing fees	**5.3**	**11.6**	**6.3**	**54**
% of Revenue	4.4%	9.5%	5.1%	

The principal amount of the senior debt was $36.5 million at December 31, 2010, compared to $65.4 million at December 31, 2009. The interest rate applicable to all loans under the senior debt is based on prime though since April 30, 2010 the minimum rate is 9.5%. The interest expense has decreased as the average outstanding principal amount has decreased.

The amortization of financing fees related primarily to the bridge loan origination fee in July 2007 and to the credit facility and bridge loan extensions on October 22, 2007 and June 6, 2008. As at December 31, 2009 all of these fees had been fully amortized.

As part of restructuring transactions completed on April 30, 2010 the entire principal amount and all accrued and unpaid interest owing under the convertible debentures was converted into 123,681,133 common shares of the Corporation (*see Note 5 of the Financial Statements*). As a result, High Arctic will not have any further interest expense associated with the convertible debentures.

The following table provides details of interest expense for continuing operations for the year ended December 31, 2010:

	Years Ended December 31		
$ millions	**2010**	**2009**	**Change**
Interest expense on Senior Credit Facility	4.1	5.4	1.3
Interest expense on convertible debentures	0.9	2.8	1.9
Interest expense on other debt	0.2	0.6	0.4
Amortization of financing fees	-	0.8	0.8
Convertible debenture accretion expense	-	1.7	1.7
Total	**5.2**	**11.3**	**6.1**

Other Gains

$ millions	Years Ended December 31			
	2010	2009	Change	%
Gain on sale of property and equipment	-	(0.9)	(0.9)	-
Gain on sale of joint venture interest	-	(2.4)	(2.4)	-
Gain on restructuring transactions	(2.6)	-	2.6	-
Total	**(2.6)**	**(3.3)**	**(0.7)**	**(21%)**
% of Revenue	**2.2%**	**2.7%**	**(0.5%)**	**-**

Gain on sale of property and equipment

Any equipment that is sold is at current market rates and the gains or losses are the result of receiving proceeds in excess or below the net book value of assets sold. Although the Corporation sold assets during the first half of 2010, there was no gain or loss to report primarily because the assets had been previously written down to the estimated sales value.

Gain on sale of joint venture interest

On September 25, 2009, the Corporation completed the sale of its interest in Optimal for proceeds of $23.5 million net of taxes in Mexico of $0.2 million. As a result of this sale, the Corporation reported a gain of $2.4 million in 2009.

Gain on restructuring transactions

On April 30, 2010, the Corporation closed a series of restructuring transactions as part of an effort to reduce debt levels and to meet conditions imposed by senior creditors for an extension of the senior credit facilities. In total, the Corporation issued 169,280,257 common shares at an estimated $36.6 million resulting in a net gain on the restructuring transactions of $2.6 million *(see Note 6 of the Financial Statements).* The table below shows the components of the $2.6 million net gain

	Number of Shares	$ value of Shares	(Gain) Loss
Issuance of common shares on related party debt settlement *(see Note 8 of the Financial Statements)*	32,968,384	6.6	(0.6)
Issuance of common shares on debenture conversion (*see Note 5 of the Financial Statements*)	123,681,133	24.7	(6.9)
Issuance of common shares for financing fee related to restructuring (*see Note 4 of the Financial Statements*)	12,630,740	2.5	2.5
Transfer of the equity portion of debentures to share capital on debenture conversion (*see Note 5 of the Financial Statements*)	-	2.8	-
Credit facility closing costs	-	-	0.4
Restructuring costs	-	-	2.0
	169,280,257	36.6	(2.6)

Income Taxes

$ millions	Years Ended December 31			
	2010	**2009**	**Change**	**%**
Income taxes	6.4	7.2	0.8	11
% of Revenue	5.4%	5.9%	0.5%	-

The income tax expense primarily relates to current taxes payable in Papua New Guinea including withholding taxes on funds repatriated from Papua New Guinea as a dividend. The Corporation is not currently taxable in Canada as the result of prior year's losses. The Corporation uses the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined for the income tax consequences attributable to 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 due to the uncertainty of the Corporation's ability to use those tax pools.

As at December 31, 2010, the Corporation reported non-capital losses carried forward for Canadian income tax purposes of $81.4 million (2009 – $58.6 million) which expire in 2027, 2028, 2029 and 2030. Also at December 31, 2010, the Canadian net capital losses carried forward for income tax purposes was $3.7 million (2009 – $4.6 million) which can be used indefinitely but only against taxable capital gains. The Corporation has the ability to file amended tax returns to adjust certain discretionary deductions to mitigate the risk of expiring loss carry forwards.

Quarterly Financial Review

Selected Quarterly Consolidated Financial Information (Three Months Ended)

In addition to other market factors, the Canadian quarterly results of High Arctic are affected by weather and seasonal factors in Canada. The first quarter of the calendar year is normally the most active in Canada, followed by a much slower second and third quarter. As a result, the variation on a quarter by quarter basis can be significant independent of other factors. High Arctic's revenue and results are significantly impacted by its international operations which do not have a distinct seasonal variation but can vary over time as most of the work is on a contract basis and expiry or new contracts can have a significant effect on overall results each quarter.

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

$million except per share amounts	Dec 31, 2010	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009	Sep 30, 2009	Jun 30, 2009	Mar 31, 2009
Revenue - continuing operations	33.3	29.0	22.4	34.6	26.7	22.9	31.2	41.8
- discontinued operations	-	-	-	-	-	1.2	3.9	4.8
- total	**33.3**	**29.0**	**22.4**	**34.6**	**26.7**	**24.1**	**35.1**	**46.6**
Net earnings (loss) – before discontinued operations	4.2	2.3	3.3	3.9	(11.7)	(1.1)	(3.1)	2.6
Per share (basic and diluted)	$0.03	$0.01	$0.02	$0.03	$(0.26)	$(0.02)	$(0.07)	$0.06
Net earnings (loss) – discontinued operations	(0.6)	(0.1)	(0.1)	(0.1)	0.2	(3.2)	0.5	(0.7)
Per share (basic and diluted)	$(0.00)	$0.00	$0.00	$0.00	$0.00	$(0.07)	$0.01	$(0.02)
Net earnings (loss)	3.6	2.2	3.2	3.8	(11.5)	(4.3)	(2.6)	1.9
Per share (basic and diluted)	$0.02	$0.01	$0.02	$0.03	$(0.25)	$(0.09)	$(0.06)	$0.04

Overview for the Three Months Ending December 31, 2010

	Three Months Ended December 31		
$ millions	**2010**	**2009**	**Change**
Revenue			
Canada	12.1	7.7	4.4
International	21.2	19.0	2.2
Total Revenue	**33.3**	**26.7**	**6.6**
Oilfield services expense			
Continuing operations	21.4	16.9	(4.5)
% of Revenue	64%	63%	(1%)
Oilfield services operating margin			
Continuing operations	11.9	9.8	2.1
% of Revenue	36%	37%	(1%)
Equipment utilization in Canada	61%	43%	18%
CAODC drilling utilization	50%	32%	18%

The following table provides a quantitative reconciliation of net earnings to EBITDA split to show the effect of the Continuing Operations and Discontinued Operations for three months ended December 31, 2010 and 2009.

	For the three months ended December 31					
	2010			**2009**		
$ millions	Continuing Operations	Discontinued Operations	Consolidated	Continuing Operations	Discontinued Operations	Consolidated
Net earnings (loss)	**4.2**	**(0.6)**	**3.6**	**(11.7)**	**0.2**	**(11.5)**
Add (deduct)						
Interest and financing fees	1.0	-	1.0	3.0	-	3.0
Taxes	1.1	-	1.1	1.9	0.1	2.0
Impairment on assets	-	-	-	11.8	0.3	12.1
Amortization	1.9	-	1.9	1.9	-	1.9
(Gain) Loss on sale of property and equipment	(0.1)	0.1	-	0.2	(0.8)	(0.6)
(Gain) Loss on restructuring transactions	0.1	-	0.1	-	-	-
EBITDA	**8.2**	**(0.5)**	**7.7**	**7.1**	**(0.2)**	**6.9**

The Corporation generated $33.3 million in revenue from continuing operations during the quarter ended December 31, 2010; an increase of $6.6 million (25%) from revenue of $26.7 million in the quarter ended December 31, 2009. There were 5,352 well completions in Canada in the fourth quarter of 2010 which was an increase of 3,609 completions (207%) over well completions in the fourth quarter of 2009 of 1,743. As a result the operations in Canada benefited from the improved activity levels as revenue increased $4.4 million (57%) to $12.1 million in the fourth quarter of 2010 compared to $7.7 million in the same quarter of 2009. The Corporation lost some revenue because of the limited by the number of qualified and experienced personnel.

Revenue from continuing international operations increased by $2.2 million (12%) to $21.2 million for the quarter ended December 31, 2010 as compared to revenue of $19.0 million during the quarter ended December 31, 2009. The Corporation's international operations are mainly in Papua New Guinea where it provides contract drilling services. The Corporation had two drilling rigs active or mobilizing for the full fourth quarter of 2010 versus only one active rig drilling for most of the fourth quarter in 2009.

Operating earnings from continuing operations was $6.3 million for the quarter ended December 31, 2010 as compared to an operating loss of $6.6 million in the quarter ended December 31, 2009. The loss in the quarter ended December 31, 2009 was largely due to a $11.8 million impairment of assets charge taken in 2009. Continuing operations had EBITDA(1) of $8.2 million in the fourth quarter of 2010 compared to $7.1 million in the fourth quarter of 2009. The Corporation recorded net earnings of $3.6 million ($0.02 per share) in the fourth quarter of 2010, as compared to a net loss of $11.5 million ($0.25 per share) in the same period of 2009. Continuing operations had a net earnings of $4.2 million ($0.03 per share) during the fourth quarter of 2010 as compared to a net loss of $11.7 million ($0.26 per share) in the fourth quarter of 2009.

The cash and cash equivalents balance increased by $3.3 million during the fourth quarter to $24.3 million at December 31, 2010. The Corporation reduced its term loan (*see Note 4 of the Financial Statements*) by $5.3 million to $36.5 million in the fourth quarter of 2010. Before consideration of working capital adjustments, cash generated by operating activities from continuing operations in the quarter ended December 31, 2010 was $7.1 million, compared to cash generated by operating activities of $2.4 million in the quarter ended December 31, 2009 (*see Cash Flow*). Capital spending related to continuing operations was $2.2 million for the fourth quarter of 2010 which was primarily for new revenue generating assets for the Corporation's Papua New Guinea operations. This compares to capital spending of $1.4 million in the fourth quarter of 2009.

Liquidity and Capital Resources

Selected Capitalization Data (on a Consolidated Basis, including Discontinued Operations)

	Years Ended December 31		
$ millions except financial ratios	2010	2009	Change
Current assets	43.7	46.6	(2.9)
Current liabilities excluding credit facility and convertible debentures[1]	12.5	23.3	10.8
Operating working capital[2]	31.2	23.3	7.9
Operating working capital ratio[3]	3.50	2.00	1.50
Senior credit facility	36.5	65.4	28.9
Convertible debentures	-	27.9	27.9
Shareholders' equity	42.8	(5.8)	48.6
Total debt-to-capitalization ratio[4]	0.46	1.07	0.61
Cash and cash equivalents	24.3	27.6	(3.3)

Notes:

(1) *Calculated as current liabilities less the current portion of the senior credit facility and convertible debentures.*
(2) *Calculated as current assets less current liabilities excluding the current portion of the senior credit facility and convertible debentures.*
(3) *Calculated as current assets divided by current liabilities excluding the current portion of the senior credit facility and convertible debentures.*
(4) *Calculated as long-term debt (senior credit facility and convertible debentures) divided by the sum of long-term debt and shareholders' equity.*

During 2010, the Corporation continued to focus on reducing its debt leverage and maintaining sufficient liquidity for its operating needs. The Corporation's objective is to have a capital structure that will provide the capital to meet the requirements of its business and instil confidence in investors, creditors and the capital markets. As part of the restructuring transactions completed effective April 30, 2010, the Corporation entered into a one year term loan facility with its senior lenders under which the outstanding balances under the revolving credit facility and bridge loan were combined into a single term loan facility with a maturity date of April 30, 2011. Also, an aggregate of $31.6 million of debt, being the entire principal amount and all accrued and unpaid interest owing under the convertible debentures and amounts owing to related parties, was converted into 123,681,133 common shares of the Corporation.

The Corporation generated positive cash flow of $18.4 million from operations before working capital adjustments during 2010 as described below. Industry conditions have improved but are still at levels that are somewhat weak, which creates a risk of negative operating cash flows. The Corporation's accounts payable and accounts receivable are substantially all current which, together with the cash balance, provides some cushion. The Corporation had a cash balance of $24.3 million as at December 31, 2010 and believes it has sufficient cash to meet its cash needs for the foreseeable future.

The Corporation's existing term loan facility matures on April 30, 2011. A principal payment of approximately $10.5 million is due by March 31, 2011 which will reduce the outstanding amount to $25 million. A potential going concern issue may arise if the Corporation is unable to extend the loan or secure adequate alternative financing to pay back

the loan on its maturity date. Management expects that it will be successful in its efforts to extend the loan or arrange alternative financing.

Restructuring Transactions

On April 30, 2010 the Corporation completed a series of restructuring transactions to reduce debt levels and to meet the requirements for an extension of the credit facilities (*see Note 4 of the Financial Statements*). Under the restructuring transactions, the Corporation:

- issued 32,968,384 common shares in settlement of all outstanding indebtedness and claims owing by the Corporation to related parties (*see Note 8 of the Financial Statements*);
- converted the Corporation's outstanding convertible debentures into 111,592,000 common shares in full settlement of all outstanding principal of $27,898,000 plus 12,089,133 common shares in full settlement of all accrued interest owed to the holders of the convertible debentures (*see Note 5 of the Financial Statements*); and
- issued 12,630,740 common shares to its senior lenders as consideration for a one year term loan to refinance the existing senior credit facilities (*see Note 4 of the Financial Statements*).

The Corporation issued a total of 169,280,257 common shares as part of the restructuring transactions. The shares were issued at a nominal value of $0.25 per share. The amount recorded in share capital for the 169,280,257 common shares is the estimated market value of $36.6 million determined as the trading price of $0.20 per share on April 30, 2010. The restructuring transactions resulted in a gain of $2.6 million being recorded. For details of the restructuring transactions see the discussion above under the heading "Gain on Restructuring Transactions".

Credit Facility

The Corporation had a revolving credit facility and a bridge facility credit agreement (collectively the "Original Senior Debt") that was restructured s part of the restructuring transactions completed on April 30, 2010 (see Note 6). On that date, the balances were combined into a single term loan facility with a maturity date of April 30, 2011. As at December 31, 2010, the Corporation owed $36.5 million on the term loan facility (2009 – an aggregate of $65.4 million on the Original Senior Debt). The interest rate applicable to the term loan facility commencing May 1, 2010 is prime plus 4.75% provided that prime has a floor amount of 4.75%. As a result, the minimum interest rate is 9.5%.

The term loan facility is due at the maturity date of April 30, 2011. Until then, there are no fixed amortization obligations but payments during the term will be required if the financial results of the Corporation exceed the agreed upon projections. Based on the financial results at December 31, 2010, the Corporation estimates it must make a payment in March, 2011 of approximately $10.5 million which will be applied to reduce the principal amount of the term loan. The obligations under the term loan facility are secured by, among other things, the pledge of accounts receivable and the eligible equipment pursuant to debentures under which the Corporation and its subsidiaries grant security over all of their respective assets.

The consolidated leverage ratio ("CLR") is one of the key financial ratio covenants under the term loan facility and is a key measure used by the Corporation in assessing the progress made to reduce its leverage. The CLR is defined in the term loan facility agreement as, in general terms, consolidated total debt, as defined, divided by the 12-month trailing adjusted consolidated earnings before interest, depreciation, amortization and taxes. The CLR covenant is applied monthly and the maximum allowable ratio for the month ended April 30, 2010 was 2.25 to 1.00, for each month ended from May 31, 2010 until September 30, 2010 is 2.75 to 1.00 and thereafter is 2.25 to 1.00. As at December 31, 2010, the Corporation had a CLR of approximately 1.2 to 1.0.

The Corporation issued 12,630,740 common shares to the lenders as consideration for the new term loan facility on April 30, 2010. The Corporation has valued the shares at $2.5 million and this amount was expensed as explained in Note 6 of the Financial Statements. As part of the loan amendments in 2007 and 2008, the Corporation issued to its lenders 1,500,000 warrants to purchase common shares of the Corporation until June 20, 2010 at an exercise price of $1.09 per common share. The warrants all expired without any being exercised.

Cash Flow

Cash – Operating Activities – Continuing Operations

For the year ended December 31, 2010, cash provided by operating activities was $18.4 million before reflecting working capital adjustments, compared to cash provided by operating activities of $8.0 million in the year ended December 31, 2009. After consideration of working capital adjustments, cash provided by operating activities in the year ended December 31, 2010 was $17.6 million, compared to cash provided by operating activities of $3.4 million in the year ended December 31, 2009.

During 2010, the outstanding accounts receivable balance increased by $1.5 million. Accounts payable and taxes payable decreased by $3.7 million. The changes in the working capital balances resulted in the net decrease in non-cash working capital of $0.8 million in the year ended December 31, 2010 as compared to a net decrease in working capital of $4.6 million in the year ended December 31, 2009.

Investing Activities – Continuing Operations

For the year ended December 31, 2010, net expenditures to acquire rigs, equipment and other operational assets were $6.7 million, compared to acquisitions of $3.6 million for the year ended December 31, 2009 (both amounts after the change in accounts payable related to constructing rigs and equipment).

During the year ended December 31, 2010 the Corporation received proceeds from the sale of equipment from continuing operations of $8.1 million (2009 - $1.3 million) and proceeds from the sale of equipment in discontinued operations of $6.8 million (2009 - $3.9 million). In addition the Corporation sold its interest in Optimal, receiving proceeds of $23.5 million in the third quarter of 2009. All proceeds were applied to the senior debt.

Financing Activities – Continuing Operations

During the year ended December 31, 2010, the Corporation repaid its credit facility by $28.9 million. In the year ending December 31, 2009, the Corporation repaid its credit facility by $28.5 million.

Cash Flows from Discontinued Operations

For the year ended December 31, 2010, cash used by operating activities was $0.5 million, compared to cash provided by discontinued operating activities of $4.7 million in the year ended December 31, 2009.

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 55% of the Corporation’s revenue for the year ended December 31, 2010 and 48% of its accounts receivable at that date. The second significant customer is a major Canadian exploration and production company which represents approximately 11% of the Corporation’s revenue for the year ended December 31, 2010 and 10% 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 and the receivable has been insured with the Export Development Canada (EDC). 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 and no details have yet been supplied by the claimant.

Other

The Corporation has posted a performance bond that has been guaranteed by Export Development Canada ("EDC) of approximately US$3.5 million, in respect of a contract in the Middle East region, and would be liable to EDC 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. The Corporation has not provided any services under that contract since 2008. 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 December 31, 2010:

	Payments Due by Period				
$ millions	**Total**	**Less than 1 Year**	**1 – 3 Years**	**4 – 5 Years**	**After 5 Years**
Long-term debt obligations[1]	36.5	36.5	-	-	-
Operating lease obligations	1.4	0.4	0.9	0.1	-
Related party operating lease obligations[2]	0.1	0.1	-	-	-
Total obligations	38.0	37.0	0.9	0.1	-

(1) The term loan facility has a maturity date of April 30, 2011.
(2) Related party operating lease obligations are for vehicle and property leases due to a related party who is a former director and officer of the Corporation (*see "Related Party Transactions")*.

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:

- volatilities 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. The term loan facility matures on April 30, 2011 which, coupled with uncertain levels of near term industry activity, exposes the Corporation to the risk that necessary capital cannot be acquired on a timely basis, on reasonable terms to the Corporation, or at all.

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.

The level of the Corporation's indebtedness from time-to-time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

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 two significant customers. Services are provided to the first significant customer in Papua New Guinea. That customer represents approximately 55% of the Corporation's revenue for the year ended December 31, 2010 and 48% of its accounts receivable at that date. The second significant customer is a major Canadian exploration and production company which represents approximately 11% of the Corporation's revenue for the year ended December 31, 2010 and 10% 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.

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 year ended December 31, 2010, an increase or decrease in interest expense for each one percent change in interest rates on the term loan facility would have amounted to $0.4 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

Credit risk is the risk of a financial loss occurring as a result of a default by a counter party on its obligation to the Corporation. The Corporation's financial instruments that are exposed to credit risk consist primarily of accounts receivable and cash balances held in banks. The Corporation mitigates credit risk by regularly monitoring its accounts receivable position and depositing cash in properly capitalized banks. The Corporation also considers the credit worthiness of counterparties prior to entering contractual arrangements.

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 local qualified staff.

Foreign Exchange Rate Risk

High Arctic's consolidated Financial Statements are presented in Canadian dollars. The Corporation is exposed to foreign currency fluctuations, as most of its international revenues and expenses are denominated in U.S. dollars. Foreign entities with a domestic functional currency expose the Corporation to currency risk on the translation of these entities' financial assets and liabilities to Canadian dollars for consolidation.

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 strong 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 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 affect 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, 2009, filed on SEADR at www.sedar.com.

Critical Accounting Estimates

The Corporation's significant accounting policies are described in Note 2 of the Financial Statements for the year ended December 31, 2010. The preparation of consolidated financial statements requires that certain estimates and judgments be made in regard to the reported amounts of revenue and expense as well as the carrying value of assets and liabilities. These estimates are based upon historical experience and the judgment of management.

The principal critical accounting estimate of the Corporation relates to amortization of property and equipment, including asset and impairment write-downs, if any. All amortization is carried out on the basis of the estimated useful lives of the related assets. Equipment under construction is not amortized until put into use. Included in property and equipment is equipment acquired under capital leases. All equipment is amortized based on the declining balance method, with rates ranging from 10% to 30%.

Assessing the reasonableness of the estimated useful lives of properties requires judgment and is based on currently available information, including periodic amortization studies conducted by the Corporation. Additionally, the Corporation canvasses its competitors to ensure it utilizes methodologies and rates consistent with the remainder of the sector in which the Corporation operates. Changes in circumstances, such as technological advances, changes to the Corporation's business strategy, changes in the Corporation's capital strategy, or changes in regulations may result in the actual useful lives differing from the Corporation's estimates.

A change in the remaining useful life of a group of assets, or their expected residual value, will affect the amortization rate used to amortize the group of assets, and thus affect amortization expense as reported in the Corporation's results of operations. These changes are reported prospectively when they occur.

The Corporation regularly assesses equipment carrying values and estimates whether future cash flows will exceed the carrying values at any point in time. Should this not be the case, the Corporation records an impairment for the estimated deficiency.

Another important estimate made by the Corporation, in particular due to its international exposure, is the allowance for collection of doubtful accounts. In addition to its day-to-day monitoring of its accounts receivable position, the Corporation has instituted detailed credit reviews prior to commencement of contractual arrangements and the use of export insurance provided by Export Development Canada where practical.

Lastly, the Corporation operates in Canada and several international jurisdictions with varying taxation policies and procedures for determining taxable income. In particular, the Corporation must estimate its earnings and capital expenditures in Canada in order to assess whether it will be liable for income tax. It must also estimate whether a future tax valuation allowance is required when recording a future tax asset. The Corporation must also estimate its tax liability in the foreign jurisdictions in which it operates, based on its understanding of the foreign tax laws and the application of those laws.

Related Party Transactions

In the normal course of business, during the year ended December 31, 2010, the Corporation incurred general and administration expenses related to premises rent of $0.4 million (2009 - $1.0 million) and equipment and vehicle leases payments of approximately $0.1 million respectively (2009 - $0.3 million) charged by companies controlled by a person who, prior to the April 30, 2010 restructuring transactions, controlled almost 40% of the outstanding shares and who was the President and Chief Executive Officer of the Corporation until December 16, 2008 (the "Shareholder"). These transactions are measured at exchange values based on rates charged by arms length persons, which, in the opinion of management, approximate fair value.

As part of the restructuring transactions completed on April 30, 2010 (*see Note 6 of the Financial Statements*), the Corporation issued 32,968,384 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 (2009 - $7.0 million). Mutual releases were signed between the parties settling all outstanding litigation and other claims to April 30, 2010. The Corporation recorded the value of the 32,968,384 common shares as $6.6 million resulting in a $0.6 million gain on the settlement of the outstanding obligations that is included in the gain on restructuring transactions. Interest expense for the year ended December 31, 2010 includes $0.2 million (2009 - $0.5 million) in respect of the amounts that were settled with the Shareholder.

New Accounting Standards Adopted

On January 1, 2010, the Corporation adopted the following Canadian Institute of Chartered Accountants (CICA) Handbook sections:

- "Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard has had no material impact on the accounting treatment of business combinations entered into after January 1, 2010.

- "Consolidated Financial Statements", Section 1601, which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard has had no material impact on the Corporation's Consolidated Financial Statements.

- "Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard has had no material impact on the Corporation's Consolidated Financial Statements.

The above CICA Handbook sections are converged with IFRS. The Corporation will be required to report its results in accordance with IFRS beginning in 2011.

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 and effective 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. The Corporation identified the activities in Canada and Papua New Guinea as critical elements to the certification of the controls.

External consultants and senior management personnel conduct process reviews, design and development processes to ensure that controls are designed appropriately. In the fourth quarter, the Corporation with the assistance of external consultants performed subsequent testing to ensure that processes and controls were operating effectively. Based upon their evaluation of the ICFR, the CEO and CFO 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 year ended December 31, 2010 that would materially affect or are reasonably likely to materially affect the Corporation's ICFR.

International Financial Reporting Standards Update

The Canadian Accounting Standards Board has confirmed that use of International Financial Reporting Standards (IFRS) will be required for years beginning on or after January 1, 2011 for profit-oriented publicly accountable entities. Therefore, the Corporation must be in a position to report its results and comparatives in accordance with IFRS beginning January 1, 2011. The Corporation expects the transition to IFRS to impact accounting, financial reporting, internal controls over financial reporting, taxes, information systems and processes as well as certain contractual arrangements.

The Corporation has established a project plan to convert form current Canadian GAAP to IFRS. The project plan consists of three phases: diagnose the impact of conversion, develop the implementation plan, and implementation.

Phase I: Diagnose the Impact of Conversion

The goal of this phase was to identify the impacts and changes required in accounting systems, processes, procedures, accounting policies and internal controls with the conversion from Canadian GAAP to IFRS. With the assistance of external consultants, the Corporation has completed the diagnosis phase, which included:

- Identifying differences between Canadian GAAP and IFRS that have the greatest potential impact to High Arctic while considering the most significant impact on the financial statements and greatest risk in terms of complexity to implement.
- Developing a detailed conversion timeline.
- Assessing resource and training needs.

Phase II: Develop the Implementation Plan

This phase consists of designing and developing a detailed plan for implementing the changes required with conversion to IFRS. It addresses changes in systems, processes, procedures, polices and internal controls that have to be implemented. The detailed implementation plan requires a comprehensive analysis of the impact of the IFRS differences identified in the initial diagnostic phase. An Implementation Plan Team has been created and to date High Arctic has:

- Provided external and internal training to key members of the Implementation Plan Team and have developed internal training materials for Board Members;
- The opening IFRS balance sheet format is in the process of being developed and work is in progress on the quantification of opening balance sheet information.
- Substantial work has been completed on developing policies, internal control procedures, and we have substantially completed the quantification of the impacts of the areas which we believe will have the most significant impact on the Corporation.

Phase III: Implementation

During the implementation phase, the Corporation will execute the required changes to business processes, procedures, financial systems, accounting policies, and internal controls over financial reporting.

Progress:

With the assistance of external consultants, the Corporation has completed the diagnosis phase, which included estimating the financial and systems impact and defining requirements for financial information. A roadmap was developed to assist in the conversion to IFRS. In addition, personnel from the Corporation have been sent on outside training to gain a better understanding of the impacts on the conversion.

We have completed the impact assessment phase, which included:

- Developing a detailed conversion timeline;
- Assessing resource and training needs;
- Identifying differences between Canadian GAAP and IFRS that have the greatest potential impact to the Corporation considering the most significant impact on the financial statements and greatest risk in terms of complexity to implement; such areas identified to date include property & equipment, impairment testing, foreign exchange and financial statement disclosures.;
- Assessing the impact on the Corporation's IT systems.

We have made progress on all stages, focusing on the key areas listed above. Regular progress reports are provided to key management and the Audit Committee.

Progress to date includes:

- Drafted IFRS accounting policies applicable to High Arctic along with some selected notes to the interim consolidated financial statements under IFRS;
- Drafted January 1, 2010 IFRS opening balance sheet;
- Analyzed the IFRS adjustments up to June 30, 2010. The adjustments have not been audited by our auditors. Analysis is continuing on the IFRS adjustments for the remainder of 2010;
- Carried out a full detailed assessment of significant components of our property & equipment and created a componentized model for use on transition;
- Analyzed accounting policy alternatives and implementation options including the first time adoption exemptions detailed in IFRS 1;
- Performed impairment testing at transition date.

The detailed assessment and design phase of the project have been completed. The implementation is ongoing and significant progress has been made during 2010 and early 2011. The Corporation's external auditors have carried out certain initial audit procedures on the IFRS opening balance sheet impacts and have started reviewing the IFRS impacts..

Accounting Policy Choices

The Implementation Plan Team has reviewed the accounting policy choices available under IFRS 1 First Time Adoption of IFRS and has made the following choices:

- Property and Equipment will be recorded for the opening balance sheet and on an ongoing basis under the cost method for all asset classes.

- Borrowing costs under IAS 23 have some significant differences in their treatment as compared to current GAAP. There is no significant difference in the way High Arctic has treated borrowing costs historically versus IFRS, therefore, High Arctic will forgo the exemption, and as a result, there will be no impact.

- Foreign currency cumulative translation differences will be reset to zero at the date of transition. There will be an impact to the financial statements due to differences in the translation of foreign operations.

- Share-based payments - Canadian GAAP and IFRS differ with respect to accounting for forfeitures and the calculation of stock-based compensation. These differences will impact the financial statements of High Arctic but the extent of the impact is not material.

- Inventory – Canadian GAAP and IFRS are largely the same as they relate to inventory. There are minor differences relating to the inclusion of freight and other related costs under IFRS. There is no material impact to the financial statements.

- Property plant and equipment – Canadian GAAP and IFRS do not differ significantly in this area. The requirement under IFRS to separately amortize major components of capital assets has been completed and there is no material impact.

- Impairment of assets - There are significant differences between Canadian GAAP and IFRS in respect to treatment of asset impairment. The treatment under IFRS may result in more frequent recognition of impairment losses. A significant difference is that IFRS allows for the reversal of previously recognized impairment losses. No reversal was allowed under GAAP. The impairment of assets has been completed and there is no effect on the opening financial statements.

- Revenue - The recognition of revenue under IFRS is largely consistent with Canadian GAAP. High Arctic does not expect a material effect to the financial statements as a result of this area.

- Statement of cash flows - The adoption of IFRS has no impact on the cash flows of the Corporation. The differences between Canadian GAAP and IFRS are to the presentation of the cash flow statement only.

General

Information technology and data systems
High Arctic completed a functionality assessment on all IT systems regarding their ability to manage changes associated with the IFRS conversion and concluded that all existing IT systems are adequate.

Internal controls
The conversion to IFRS will have no significant impact on the current control environment. During the implementation phase, we will execute any required changes to business processes, financial systems, accounting policies, and internal controls over financial reporting.

Disclosure controls
High Arctic has completed the first draft of full IFRS financial statements. The additional information required for disclosure under IFRS will be readily available and we will execute the adjustments required to make the opening balance sheet IFRS compliant.

Sufficiency of financial reporting expertise
High Arctic's financial reporting team has received training in and has knowledge of IFRS including the transition from generally accepted accounting principles to IFRS.

Over the next year we will continue to monitor our IFRS changeover plan and make the necessary modifications to reflect new and amended accounting standards issued by the International Accounting Standards Board. At this time, the quantitative impact of the transition to IFRS on High Arctic's financial statements is not reasonably determinable.

Outlook

Canadian drilling activity improved in 2010 which increased the demand for the Corporation's services and improved the operational and financial results in Canada, especially for High Arctic's nitrogen services which had much stronger utilization rates. The favourable market conditions in Canada also helped to reduce the pricing declines experienced by the Corporation in 2009. The forecast for drilling activity in 2011 is for continuing improvement over the 2010 levels. The first two months of 2011 has seen a significant increase in drilling activity, however most of the increase in activity has been oil related. 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, providing a drag on natural gas well drilling activity. 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 hopes to maintain the gain in market share realized in 2010 and remains focused on maintaining a competitive cost structure and improving operating efficiencies. Activity in the northern foothills areas of Alberta and northeastern British Columbia should remain the strongest and High Arctic will continue to market to these areas where the focus will be on providing services for non-conventional shale and tight gas plays.

In Papua New Guinea, High Arctic has recently signed new contracts with its major customer for Rig 102 and Rig 104 along with the related drilling support contracts that run into 2013, subject to certain cancelation rights. Those contracts provide a significant base level of activity to support the operations in the country. Rig 104 is expected to operate continuously throughout 2011. Rig 102 is being substantially upgraded and should be ready to commence operations in late May 2011. The Corporation is also providing drilling services with Rig 103 to other customers in Papua New Guinea on a well to well basis, having recently completed one well and currently mobilizing the rig for a one well contract that should run to the end of the second quarter of 2011. The Corporation is looking for additional work for Rig 103 following completion of that well. Drilling a well in Papua New Guinea is a substantial undertaking due in part to the cost of moving a rig over difficult terrain with helicopters.

High Arctic also provides drilling support equipment on a rental basis to several other customers in Papua New Guinea under shorter term contracts and hopes to expand that business line through additions to its rental fleet.

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 (including the Corporation's ability to obtain any required waivers and extensions relating to the credit facilities);
- 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 below and elsewhere in this MD&A, along with the risk factors set out in the Annual Information Form for the year ended December 31, 2009, 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.

Non-GAAP Terms

EBITDA (being earnings before the deduction of depreciation, amortization, interest and financing costs and income taxes), "Oilfield Services Operating Margin", "Oilfield Services Operating Margin %", "Operating Earnings", "Operating working capital", Operating working capital ratio", "market capitalization", "debt to capitalization ratio", "Consolidated total debt" and "CLR" are not recognized measures under GAAP. Management believes that, in addition to net earnings, EBITDA is a useful supplemental measure of the Corporation's performance prior to consideration of how operations are financed or how results are taxed. Investors are cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Corporation's performance. The Corporation's method of calculating EBITDA and other non GAAP items may differ from the methods used by other issuers and, accordingly, they may not be comparable to similarly titled measures used by other issuers.

Additional Information

Additional information on the Corporation, including the Information Circular dated May 27, 2010 and the Annual Information Form for the year ended December 31, 2009 can be found on SEDAR at www.sedar.com.