HIGH ARCTIC ENERGY SERVICES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED
DECEMBER 31, 2014

MARCH 11, 2015

High Arctic Energy Services Inc.
Management's Discussion and Analysis
For the Years Ended December 31, 2014 and 2013

The following Management's Discussion and Analysis ("MD&A") of High Arctic Energy Services Inc. (the "Corporation" or "High Arctic") should be read in conjunction with the audited consolidated financial statements of High Arctic for the years ended December 31, 2014 and 2013 and the notes contained therein (the "Financial Statements"). This information is available at SEDAR (www.sedar.com). The Corporation's Annual Information Form for the year ended December 31, 2014 is expected to be filed on SEDAR prior to March 31, 2015.

All financial measures presented in this MD&A are in Canadian dollars unless otherwise indicated. This MD&A is dated March 11, 2015.

Forward-Looking Statements

This MD&A contains forward-looking statements. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions are intended to identify forward-looking statements. Such statements reflect the Corporation's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation's actual results, performance or achievements to vary from those described in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this MD&A include, among others, statements pertaining to the following: general economic and business conditions which will, among other things, impact demand for and market prices for the Corporation's services; expectations regarding the Corporation's ability to raise capital and manage its debt obligations; commodity prices and the impact that they have on industry activity; estimated capital expenditure programs for fiscal 2015 and subsequent periods; projections of market prices and costs; factors upon which the Corporation will decide whether or not to undertake a specific course of operational action or expansion; treatment under governmental regulatory regimes and political uncertainty and civil unrest. With respect to forward-looking statements contained in this MD&A, the Corporation has made assumptions regarding, among other things, its ability to: obtain equity and debt financing on satisfactory terms; market successfully to current and new customers; obtain equipment from suppliers; construct property and equipment according to anticipated schedules and budgets; remain competitive in all of its operations; and attract and retain skilled employees.

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

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

Corporate Profile

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

High Arctic's largest operation is in Papua New Guinea where it provides drilling and specialized well completion services and supplies rig matting, camps and drilling support equipment on a rental basis. The Canadian operation provides snubbing services, nitrogen supplies and equipment on a rental basis to a large number of oil and natural gas exploration and production companies operating in Western Canada.

Highlights

- Adjusted EBITDA[(1)(2)] for the year ended December 31, 2014 grew to $49.3 million, an increase of 19% (2013 - $41.5 million). Adjusted EBITDA increased from $12.5 million for Q4 2013 by 6% to $13.3 million for Q4 2014.
- Revenue for 2014 was the highest in High Arctic's history totalling $171.8 million (2013 - $152.7 million). Fourth quarter revenues for 2014 increased by 19% over Q4 2013 from $38.7 million to $46.2 million.
- On July 28, 2014, High Arctic completed the acquisition of two heli-portable drilling rigs. The Corporation has signed two year term drilling services contracts with a large oil and gas operator in PNG for each rig. The well utilizing the first rig is expected to spud early in Q2 2015; the second rig is expected to commence drilling in PNG in mid Q3 2015.
- Approximately three quarters of the Corporation's 2015 revenue is contracted and is in U.S. dollars.
- High Arctic paid dividends of $9.4 million during 2014. The Corporation continues to maintain a strong balance sheet and has a trailing annual dividend payout ratio of 22%.

Selected Comparative Financial Information

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

	Three Months Ended December 31				Year Ended December 31			
$ millions (except per share amounts)	2014	2013	Change	%	2014	2013	Change	%
Revenue	**46.2**	38.7	7.5	19	**171.8**	152.7	19.1	13
EBITDA[(1)]	**13.2**	11.6	1.6	14	**47.2**	42.7	4.5	11
Adjusted EBITDA[(1)(2)]	**13.3**	12.5	0.8	6	**49.3**	41.5	7.8	19
Operating earnings	**9.5**	8.2	1.3	16	**35.3**	30.8	4.5	15
Net earnings	**8.5**	6.4	2.1	33	**28.2**	24.6	3.6	15
per share (basic)[(3)]	**0.15**	0.13	0.02		**0.54**	0.51	0.03	
per share (diluted)[(3)]	**0.15**	0.13	0.02		**0.53**	0.50	0.03	
Funds provided from operations[(1)]	**12.8**	10.8	2.0	19	**43.3**	35.3	8.0	23
per share (basic)[(3)]	**0.23**	0.22	0.01		**0.82**	0.73	0.09	
per share (diluted)[(3)]	**0.23**	0.22	0.01		**0.81**	0.72	0.09	
Dividends	**2.7**	1.9	0.8		**9.4**	7.2	2.2	
Capital expenditures	**14.7**	4.2	10.5		**55.7**	21.9	33.8	
Working Capital					**41.6**	41.9	(0.3)	(1)
Total assets					**188.7**	137.1	51.6	38
Total non-current financial liabilities					**0.4**	6.7	(6.3)	
Net cash, end of period [(1)]					**37.2**	26.9	10.3	38
Shares outstanding - end of period[(3)]					**55.8**	50.0	5.8	

(1) Readers are cautioned that EBITDA, Adjusted EBITDA, Funds provided from operations, net cash and working capital do not have standardized meanings prescribed by IFRS – see "Key Financial Measures".
(2) Adjusted EBITDA is calculated as EBITDA plus adjustments for share-based compensation, loss on sale of property and equipment, excess of insurance proceeds over costs and foreign exchange gains or losses.
(3) The restricted shares held by a trustee under the Executive and Director Incentive Share Plan are included in the shares outstanding. The number of shares used in calculating the net earnings per share amounts is determined differently as explained in the Financial Statements.

Key Financial Measures

This MD&A contains references to certain financial measures that do not have a standardized meaning prescribed by IFRS and may not be comparable to the same or similar measures used by other companies. High Arctic uses these financial measures to assess performance and believes these measures provide useful supplemental information to shareholders' and investors. These financial measures are computed on a consistent basis for each reporting period and include the following:

EBITDA

Management believes that, in addition to net earnings reported in the consolidated statement of earnings and comprehensive income, EBITDA (earnings before interest, taxes, depreciation and amortization) is a useful supplemental measure of the Corporation's performance prior to consideration of how operations are financed or how results are taxed or how depreciation and amortization affects results. EBITDA is not intended to represent net earnings calculated in accordance with IFRS.

Adjusted EBITDA

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

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

($ millions)	Three months ended Dec. 31 2014	Three months ended Dec. 31, 2013	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013
Net earnings for the period	**8.5**	**6.4**	**28.2**	**24.6**
Add:				
Interest and finance expense	-	0.2	0.4	0.8
Income taxes	1.3	1.1	5.8	5.0
Amortization	3.4	3.9	12.8	12.3
EBITDA	**13.2**	**11.6**	**47.2**	**42.7**
Add:				
Share-based compensation	0.4	0.4	1.4	0.8
Loss (gain) on sale of assets	-	-	(0.2)	0.3
Excess of insurance proceeds over costs	-	-	-	(2.7)
Foreign exchange loss (gain)	(0.3)	0.5	0.9	0.4
Adjusted EBITDA	**13.3**	**12.5**	**49.3**	**41.5**

Oilfield Services Operating Margin

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

Oilfield Services Operating Margin %

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

Percent of Revenue

Certain figures are stated as a percent of revenue and are used by management to analyze individual components of expenses to evaluate the Corporation's performance from prior periods and to compare its performance to other companies.

Funds Provided from Operations

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

This measure is used by management to analyze funds provided from operating activities prior to the net effect of changes in items of non-cash working capital, and is not intended to represent net cash generated from operating activities as calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of net cash generated from operating activities to funds provided from operations for the three months and year ended December 31:

($ millions)	Three Months ended Dec. 31, 2014	Three Months ended Dec. 31, 2013	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013
Net cash generated from operating activities	**4.1**	**9.9**	**43.8**	**36.8**
Less:				
Net changes in items of non-cash working capital	8.7	0.9	(0.5)	(1.5)
Funds provided from operations	**12.8**	**10.8**	**43.3**	**35.3**

Debt-to-capitalization percentage

Debt-to-capitalization percentage is used by management to assess its financial structure and determine how the Corporation is financing its activities. The amount is calculated as total debt divided by the sum of total debt and shareholders' equity.

Working capital

Working capital is used by management as another measure to analyze the operating liquidity available to the Corporation. It is defined as current assets less current liabilities.

Net cash

Net cash is used by management to analyze the amount by which cash and cash equivalents exceed the total amount of debt. The amount, if any, is calculated as cash and cash equivalents less total long-term debt.

The following tables provide a quantitative reconciliation of cash and cash equivalents to net cash as at December 31:

($ millions)	2014	2013
Cash and cash equivalents	37.2	33.7
Less:		
Long-term debt	-	(6.7)
Net cash	**37.2**	**27.0**

Market capitalization

Market capitalization is used by management to calculate the approximate fair value of the Corporation's equity based on the trading value of the common shares on the Toronto Stock Exchange and is calculated as the total number of shares outstanding multiplied by the Corporation's share price at a point in time.

Overview

High Arctic delivered a record Adjusted EBITDA of $49.3 million in 2014; a 19% increase from $41.5 million earned in 2013. In the fourth quarter of 2014, Adjusted EBITDA was $13.3 million as compared to $12.5 million for the fourth quarter of 2013, an increase of 6%.

2014 was a significant year for High Arctic as it materially expanded its drilling operations and market share in Papua New Guinea ("PNG") through the purchase of two heli-portable drilling rigs. The rigs were acquired at a cost of US$29 million ($31.6 million), and required upgrading to meet the customers specifications for drilling in PNG. Both rigs are currently under two year contracts with drilling operations anticipated to commence in April, 2015 for Rig 115 and in the third quarter of 2015 for Rig 116. To provide partial funding for the rig project, the Corporation closed a public offering on July 28th, issuing 5,051,000 common shares for net proceeds of $23.6 million. The remainder of the project costs are funded from existing cash on hand.

The Corporation continues to generate strong cash flows from its operations. Funds provided from operations were $12.8 million during the fourth quarter of 2014, a 19 percent increase over the same period in 2013. For the year ended December 31, 2014, High Arctic generated $43.3 million (2013 - $35.3 million) of funds provided from operations. At December 31, 2014, High Arctic had $37.2 million of net cash on hand (December 31, 2013 - $26.9 million) and working capital of $41.6 million (December 31, 2013 - $41.9 million).

In response to its continued strong financial results, High Arctic increased its monthly dividend to $0.015 per share in March, 2014 and to $0.0165 per share in November, 2014. Dividends paid in 2014 increased by 31% over 2013 to $9.4 million (2013 - $7.2 million) and represent an annualized rate of 22% of funds provided from operations. The Corporation anticipates that future earnings will support continued dividend payments.

Revenue and Oilfield Services Expense

For the three months ended December 31, 2014, revenues were $46.2 million; a 19% increase over the revenues generated during the fourth quarter of 2013 of $38.7 million. Annual revenues for 2014 increased by 13% to $171.8 million, the highest in High Arctic's history, from $152.7 million for 2013. Revenues increased from both the PNG and Canadian operations. The increases in PNG revenue during the year arose mainly from higher drilling rig utilization and the benefit of a stronger U.S. dollar. Canadian activity levels were higher in 2014 than in 2013 for both snubbing and nitrogen services and for its rental revenues.

Consolidated oilfield services operating margins continued to be strong and increased to 36% of annual revenues for 2014 as compared to 34% for 2013 mainly as a result of improved margins realized with increased activity in Canada. The Canadian operations experienced higher margins for both the three months and year ended December 31 2014 with personnel and equipment utilized at a higher rate than during the same periods in 2013. However, a decrease in the total oilfield services operating margin percentage occurred for the three months ended December 31, 2014 as compared to the same period in 2013 due to a higher percentage of the revenues being derived from drilling rig lease income for the three months ended December 31, 2014 ($9.9 million, 21%) as compared to the same period in 2013 ($6.8 million, 18%). Such drilling rig lease charges are fully offset by lease expenses and generate no margin. An overall increase of $9.9 million was realised in the consolidated oilfield services operating margin for 2014 over 2013.

	Three Months Ended December 31				Year Ended December 31			
($ millions)	2014	2013	Change	%	2014	2013	Change	%
Revenue								
Papua New Guinea	30.8	26.0	4.8	18	123.5	111.9	11.6	10
Canada	15.4	12.7	2.7	21	48.3	40.8	7.5	18
Total	**46.2**	**38.7**	**7.5**	**19**	**171.8**	**152.7**	**19.1**	**13**

	Three Months Ended December 31				Year Ended December 31			
($ millions)	2014	2013	Change	%	2014	2013	Change	%
Oilfield services expense	**29.8**	**23.7**	**6.1**	**26**	**110.6**	**101.4**	**9.2**	**9**
Percent of revenue	65%	61%			64%	66%		
Oilfield services operating margin	**16.4**	**15.0**	**1.4**	**9**	**61.2**	**51.3**	**9.9**	**19**
Percent of revenue	35%	39%			36%	34%		

Operations in PNG

High Arctic is currently managing and operating two heli-portable drilling rigs (Rigs 103 and 104) owned by a customer in PNG. Both drilling rigs were active for all but thirteen days of 2014. In 2013, both rigs were active throughout the first four months of the year and then commenced operating on a shared leap frog basis with one drilling rig crew for the balance of the year. Revenue includes amounts related to the lease of the rigs to our customers and an equivalent lease cost is included in oilfield services expense. The lease amounts are significant with revenues and expenses each reflecting $36.7 million for 2014 compared to $29.0 million for 2013 ($9.8 million for Q4 2014; $6.8 million for Q4 2013). PNG's rental fleet includes 9,838 Dura-Base® mats, of which High Arctic exited 2014 with approximately 6,800 mats under contract. The Corporation also generates revenues from a heli-portable camp, and various trucks, cranes and other oilfield equipment. The heli-portable camp owned by High Arctic has been stacked at a lower rate under contract since mid-August 2014.

Rig 102 was fully operational throughout the first ten months of 2013 but was stacked under contract from November, 2013 until May 14, 2014 at which time it went off contract. Rig 102 is the only heli-portable workover rig in PNG and it will be available to provide workover type operations in the future.

During the three months ended December 31, 2014, revenue from the PNG operations increased by 18% to $30.8 million from $26.0 million earned in Q4 2013. Increased drilling revenues due to both Rig 103 and Rig 104 being fully utilized during the quarter offset decreased rental revenues which resulted from the return of equipment by other customers and the loss of revenues from Rig 102 which was inactive in Q4 2014 but had earned revenue in Q4 2013. The Corporation also benefitted from the effects on revenue of a stronger U.S. dollar during the fourth quarter with the exchange rate averaging 1.136 (Q4 2013 – 1.050).

Revenue for the PNG operations for the year ended December 31, 2014 increased by 10% to $123.5 million (2013 - $111.9 million). Higher matting and equipment rental revenues were earned in 2014 (2014 - $30.2 million; 2013 - $27.4 million) due in part to rentals placed in service in the second half of 2013. Increased drilling revenues were also earned in 2014 ($92.1 million; 2013 - $73.1 million) due to the utilization of both Rig 103 and Rig 104 throughout the year. These increases, which include the effects of the stronger U.S. dollar, offset the reduction of Rig 102 revenues earned of $11.4 million in 2013 to $1.3 million in 2014.

Operations in Canada

The Corporation's largest business line in Canada is its snubbing services which accounted for revenue of $11.1 million for the fourth quarter of 2014 (Q4 2013 - $8.5 million). Utilization rates for the snubbing units for the three months ended December 31 were 46% for 2014 as compared to 36% for 2013. For the year ended December 31, 2014, revenue generated by snubbing services increased by 16% over 2013 from $29.0 million to $33.7 million. Annual utilization rates for the snubbing units were 37% for 2014 as compared to 31% for 2013.

The second largest Canadian product line is nitrogen services which are often supplied in conjunction with snubbing activities. For the three months ended December 31, 2014, nitrogen revenue increased by 6% to $3.5 million (Q4 2013 - $3.3 million) with utilization rates of 85% during the period (60% for Q4 2013). Nitrogen revenue was $12.1 million for the year ended December 31, 2014 compared to $9.9 million for the same period in 2013, an increase of 22%. Revenue increased as a result of increased utilization for nitrogen services during the year ended December 31, 2014 of 66% (2013 – 53%) which was partially offset by competitive pricing pressures.

A slight increase in rental revenues also contributed to the 18% increase in total annual revenue for the Canadian operations to $48.3 million in 2014 (2013 - $40.8). Total equipment utilization, determined by dividing the number of twelve hour days a unit operates by the total number of days in the relevant period, was 48% for the year ended December 31, 2014 (2013 - 38%).

Oilfield Services Expense and Oilfield Services Operating Margin

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

For the three months ended December 31, oilfield services expenses were higher as a percentage of revenue in 2014 than in 2013. A higher percentage of revenues were derived from drilling rig lease income for the three months ended December 31, 2014 ($9.9 million or 21%) as compared to the same period in 2013 ($6.8 million or 18%). Such drilling rig lease charges are fully offset by lease expenses and generate no margin. This resulted in a decrease in the oilfield services operating margin percentage for the three months ended December 31, 2014 as compared to the same period in 2013.

Oilfield services expense as a percentage of revenue fell to 64% for 2014 from 66% for 2013 resulting in higher operating margins as a percentage of revenue. In addition to the strong operating results in both PNG and Canada, during 2014 a higher percentage of the revenue was earned from the higher margin equipment and matting rentals which have much lower operating costs than drilling or completion operations. Also, Rig 102 was on a stacked rate until May 14, 2014 and incurred few expenses.

Oilfield services expenses by nature

	Three Months Ended December 31		Year Ended December 31	
($ millions)	2014	2013	2014	2013
Personnel costs and personnel related costs	12.6	10.7	45.8	44.9
Drilling rig and other rental costs	10.2	7.1	37.8	30.6
Material and supplies cost	4.7	3.6	17.5	16.1
Equipment operating and maintenance costs	2.2	2.2	8.7	8.8
Other	0.1	0.1	0.8	1.0
Total	**29.8**	**23.7**	**110.6**	**101.4**

Personnel costs increased in the fourth quarter of 2014 over the same period in 2013 due to increased activity in the Canadian snubbing and nitrogen business as well as both Rig 103 and Rig 104 being fully utilized during the quarter. The full usage of both drilling rigs also incurred increased rental costs for the quarter.

For the year ended December 31, 2014, personnel costs did not increase as significantly compared to 2013 because Rig 102 did not operate in 2014 and the decreased personnel costs from Rig 102 have been offset by increased activity in Canada and from the PNG drilling operations. Drilling rig lease expenses were higher for the year as both Rig 103 and 104 were fully operating as compared to operating on a leap frog basis with one drilling crew for five months of 2013.

The increase in oilfield services expenses in 2014 is also partially explained by the increase in the average US dollar exchange rate to 1.136 for Q4 2014 (Q4 2013 – 1.050) and 1.105 for the 2014 year (2013 – 1.030).

General and Administration

($ millions)	Three Months Ended December 31			Year Ended December 31		
	2014	2013	Change	2014	2013	Change
Personnel costs and personnel related costs	**2.1**	1.8	**0.3**	**8.1**	6.8	1.3
Professional, legal and consulting fees	**0.1**	0.3	**(0.2)**	**0.8**	0.8	-
Facility costs	**0.4**	0.2	**0.2**	**1.4**	1.0	0.4
Leases	**0.3**	0.3	**-**	**0.7**	0.7	-
Other	**0.2**	(0.1)	**0.3**	**0.9**	0.5	0.4
General and Administration	**3.1**	2.5	0.6	**11.9**	9.8	2.1
Percent of revenue	**6.7%**	6.5%		**6.9%**	6.4%	

General and administration expenses (G&A) for the three months and year ended December 31, 2014 increased over the same periods in 2013 as a result of staffing increases and other outlays made to support both current and expected increased activity in the PNG operations and the initiation of a regional office in Brisbane, Australia.

Amortization

($ millions)	Three Months Ended December 31			Year Ended December 31		
	2014	2013	Change	2014	2013	Change
Amortization	**3.4**	**3.9**	**(0.5)**	**12.8**	**12.3**	**0.5**
Percent of revenue	7.4%	10.1%		7.5%	8.1%	

Amortization increased slightly for the year ended December 31, 2014 as compared to 2013 due to expenditures on property, plant and equipment made by High Arctic that were placed in service in 2013. For Q4 2014, amortization decreased due to the lower net book value of the assets as compared to Q4 2013 and also partly to the disposal of certain assets in 2014.

Share-based Compensation

($ millions)	Three Months Ended December 31			Year Ended December 31		
	2014	2013	Change	2014	2013	Change
Share-based compensation	**0.4**	**0.4**	**-**	**1.4**	**0.8**	**0.6**
Percent of revenue	<1%	<1%		<1%	<1%	

The increase in share-based compensation expense to $1.4 million for the year ended December 31, 2014 is attributable to the graded vesting formula used to amortize the calculated benefit amount over the vesting period which weights a higher portion of the benefit to the first year of each grant and to the increased numbers of share options, unvested shares outstanding under the Corporation's Executive and Director Share Incentive Program and Restricted Share Units outstanding throughout the period as compared to 2013.

Foreign Exchange Loss (Gain) in Net Earnings

($ millions)	Three Months Ended December 31			Year Ended December 31		
	2014	2013	Change	2014	2013	Change
Foreign exchange loss (gain)	**(0.3)**	**0.3**	**(0.6)**	**0.9**	**0.4**	**0.5**
Percent of revenue	<1%	<1%		<1%	<1%	

The Corporation has exposure to U.S. dollar revenues and expenses, primarily through its operations in PNG, to local currencies including the Kina in PNG and to the current assets (cash and cash equivalents) and current liabilities denominated in U.S. dollars held in Canada. Gains and losses recorded by the Canadian parent on its U.S. dollar cash accounts and on any U.S. dollar denominated intercompany balances must be recognised as a foreign exchange gain or loss in the statement of earnings while the offsetting amount on the intercompany balances recorded for the foreign subsidiary is recorded as a cumulative translation adjustment. Gains and losses on intercompany balances are non-cash items. In 2014, the Canadian dollar lost approximately 9.7% of its value against the U.S. dollar as compared to 6.4% for 2013 and operating results were favourably impacted by the stronger US dollar. Included in the foreign exchange losses in 2014 are losses realized on transactions of $0.2 million and unrealized losses on intercompany balances of $0.7 million.

Foreign Currency Translation Gains in Other Comprehensive Income

The translation of foreign operations with a functional currency different from that of the Corporation, being primarily the U.S. dollar based operations in PNG, is translated into Canadian dollars and resulting changes are recognised in other comprehensive income as cumulative translation adjustments as follows:

	Three Months Ended December 31			Year Ended December 31		
($ millions)	2014	2013	Change	2014	2013	Change
Foreign currency translation gains for foreign operations	4.1	2.7	1.4	9.0	4.8	4.2

The U.S. dollar exchange rate increased from 0.9949 at the beginning of 2013 to 1.0636 on December 31, 2013 resulting in a foreign currency translation gain recognized in other comprehensive income of $4.8 million in 2013. These gains were realized on the assets held by foreign operations during 2013 as follows: cash $1.5 million; property and equipment $2.2 million; non-cash working capital items $0.5 million and intercompany loan balances of $0.6 million.

By December 31, 2014 the U.S. dollar exchange rate had further increased to 1.1601 and resulted in the recognition of a foreign currency translation gain in other comprehensive income of $9.0 million for the year then ended. These gains were realized on the assets held by foreign operations during 2014 as follows: cash $2.0 million; property and equipment $5.3 million; non-cash working capital items $0.1 million and intercompany loan balances of $1.6 million.

For the three months ended December 31, 2014, the increase of the U.S. dollar exchange rate from 1.120 on September 30, 2014 (September 30, 2013 – 1.0303) resulted in a foreign currency exchange gain of $4.1 million (2013 - $2.7 million).

Interest and Finance Expense

The Corporation had no debt outstanding at December 31, 2014 compared to $6.7 million at December 31, 2013. High Arctic repaid $6.7 million of its long term debt in 2014 (2013 - $7.0 million). The interest rate applicable to the senior debt is based on the prime rate plus a spread (see Long Term Debt). Interest expense decreased in 2014 as compared to 2013 as a result of the reduced debt.

Income Taxes

	Three Months Ended December 31			Year Ended December 31		
($ millions)	2014	2013	Change	2014	2013	Change
Current income tax expense	1.1	1.5	(0.4)	5.6	5.5	0.1
Percent of net earnings before income taxes	11.2%	20.0%		16.5%	18.6%	
Deferred income tax expense	0.2	(0.4)	0.6	0.2	(0.5)	0.7

The current income tax expense relates to current taxes payable on services provided in PNG. The Corporation's activities in Canada are not subject to current income taxes due to its ability to utilize various tax pools and losses carried forward from prior years.

Earnings retained by subsidiaries that may be subject to dividend withholding taxes in the country of origin upon repatriation amounted to $61.8 million as at December 31, 2014 (2013 - $56.5 million). The average dividend withholding tax rate is estimated to be 17%. No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings because the Corporation controls the relevant entities and has no committed plans to repatriate the earnings in the foreseeable future.

High Arctic is not currently taxable in Canada as a result of significant available tax pools. The Corporation uses the liability method of tax allocation in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the income tax consequences attributable to the difference between amounts recorded in the financial statements and their respective tax bases, using a substantially enacted tax rate. High Arctic has recognised a deferred tax asset of $5.0 million as a result of determining that sufficient certainty exists to support recognising $20 million of its existing tax pools based on estimated future taxable profits. The Corporation believes that future taxable income projections continue to support the deferred tax asset recognised.

At each reporting period, the Corporation assesses its ability to utilize the deductible temporary differences based on its history of profitability, the current industry activity in Canada and the expectation of future taxable profitability. In 2014, the Corporation recognised a Canadian timing difference of $2.1 million based on its taxable income produced in the year (2013 - $1.6 million) and does not expect to recognise any in 2015. The deductible temporary differences for which no benefit has been booked that relate to the available Canadian tax pools are estimated as follows:

	December 31, 2014
Property and equipment	(3.8)
Non- capital losses	67.7
Financing costs	3.5
Total	**67.4**

Outstanding Share Data

Common Shares

The Corporation's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares. As at December 31, 2014, there were 55,768,652 issued and outstanding common shares.

On July 28, 2014, the Corporation completed a public offering of 5,051,000 common shares at a price of $4.95 for gross proceeds of $25.0 million. Issuance costs of $1.4 million were incurred and the net proceeds were used, along with existing cash on hand, to purchase two heli-portable drilling rigs.

During the year ended December 31, 2014, a total of 567,060 stock options were exercised (2013 – 345,740) for shares of the Corporation.

In January, 2015, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 5 percent of the Corporation's issued and outstanding common shares under a Normal Course Issuer Bid (the "Bid"). The Bid commenced on January 12, 2015 and is valid for one year. As of March 10, 2015, 338,000 common shares have been purchased and cancelled pursuant to the Bid at a cost of $1.2 million.

As of the date of this MD&A, there were 55,430,652 issued and outstanding common shares including 123,000 shares held in the Executive and Director Share Incentive Plan that had not yet vested as of December 31, 2014 and which may be cancelled under certain circumstances related to a three year vesting period.

Options

As at December 31, 2014, there were 3,247,100 options outstanding to acquire common shares of the Corporation at an average exercise price of $3.65 per share. Subsequent to December 31, 2014, 40,000 options have been forfeited and no options have been granted or exercised resulting in 3,207,100 options outstanding at an average exercise price of $3.68 per share as of the date of this MD&A.

Share Incentive Plan

Shares granted under the Executive and Director Share Incentive Plan (EDSIP) are issued in trust for the benefit of designated beneficiaries and vest to each designated beneficiary over a 3 year period. The designated beneficiaries of the restricted common shares held in trust have full voting, liquidity, dividend and other related rights similar to the holders of the unrestricted issued common shares. The shares are not freely tradable prior to vesting and any shares that do not meet the vesting conditions are returned by the trustee to the Corporation for cancellation. The number of restricted shares granted is reflected under the total issued and outstanding common shares while the value of these shares will be included in the common share capital amount as they vest with an equivalent share based compensation amount recorded. A share-based compensation amount for the common shares issued under the EDSIP is measured as the number of common shares multiplied by the trading price of the Corporation's common shares at the time of the grant and that amount is amortized over the vesting period. Each vesting period is treated as a separate tranche for measurement of the non-cash share-based compensation expense. The share-based compensation for each tranche is expensed based on the vesting date for that tranche resulting in a proportionally greater amount being recognized in the earlier periods.

In August 2014, 105,000 shares were granted under the EDSIP which have a three year vesting period with 34% vesting on August 18, 2015, 33% on August 18, 2016 and 33% on August 18, 2017. Share-based compensation of $5.29 per share will be recognized over the vesting period and a share capital amount of $5.29 per share will be recorded as the related share-based compensation expense is recognized.

Restricted Share Units

In 2014 the Corporation awarded 80,000 Restricted Share Units ("RSUs") to certain officers of the Corporation. Each RSU carries the right to a cash payment based upon the trading price of the common shares when exercised. The RSUs vest equally over a three year period and will be settled in cash when exercised by the holder no earlier than two years after the vesting date. The RSUs must be exercised within six years of the date of grant.

The RSUs are treated as cash-settled share-based compensation and a compensation expense is recognized over the vesting period using fair values with a corresponding increase or decrease in liabilities. The liability is remeasured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as share-based compensation expense in the statement of income. The fair value is determined using the Black-Scholes option pricing model.

For the year ended December 31, 2014, the Corporation incurred share based compensation expense of $0.1 million (2013 – nil) related to the 80,000 RSUs issued and an amount of $0.2 million (before recognizing a reduction for any future forfeitures) remains to be amortized in future periods in respect of the RSUs.

Market Capitalization

The Corporation's common shares trade on the Toronto Stock Exchange under the symbol HWO. The closing price of the shares on March 10, 2015 was $3.59 per share. Based upon the issued common shares on that date of 55,430,652, the Corporation has an approximate market capitalization of $199.0 million.

Liquidity and Capital Resources

Selected Capitalization Data:

($ millions except financial ratios)	December 31, 2014	December 31, 2013	Change
Current assets(1)	63.6	60.0	3.6
Current liabilities(2)	22.0	18.1	3.9
Working capital(3)	41.6	41.9	(0.3)
Working capital ratio(4)	2.9:1	3.3:1	(0.4:1)
Total debt	-	6.7	(6.7)
Total debt-to-capitalization percentage(5)	0%	5.7%	(5.7%)
Cash and cash equivalents	37.2	33.7	3.5
Net cash(6)	37.2	27.0	10.2

Notes:
(1) *Calculated as all current assets.*
(2) *Calculated as current liabilities excluding the current portion of long-term debt, if any.*
(3) *Calculated as current assets (as defined above) less current liabilities (as defined above).*
(4) *Calculated as current assets (as defined above) divided by current liabilities (as defined above).*
(5) *Calculated as total debt divided by the sum of total debt and shareholders' equity.*
(6) *Net cash is calculated as the amount by which cash and cash equivalents exceeds total debt.*

The Corporation manages its capital structure so as to provide the capital to meet the requirements of its business and instill confidence in investors, creditors and the capital markets. The debt leverage is an important metric used by management to assess the capital structure. The Corporation has a credit facility (see "Credit Facility" below) from which up to $45 million may be drawn on a revolving basis, subject to the applicable borrowing base margin requirements.

The Corporation generated net cash from operating activities of $43.8 million for the year ended December 31, 2014 (2013 - $36.8 million). The cash balance and available undrawn credit facilities provide adequate liquidity to meet the Corporation's expected operating and capital needs. The Corporation had a cash balance of $37.2 million as at December 31, 2014, which is targeted to meet the capital expenditures anticipated for 2015. The Corporation believes it has sufficient cash to meet its needs for the foreseeable future.

Long-Term Debt

As at December 31, 2014, the main components of the Corporation's available credit facilities are a $40 million (December 31, 2013 - $30 million) revolving loan and a $5 million revolving operating loan. The maturity date of amounts outstanding under both main components of the credit facilities is August 31, 2016 and no principal payments are required prior to that date. Outstanding long-term debt is secured by all of the assets of the Canadian parent and by guarantees given by its material foreign subsidiaries. In August, 2014, the Corporation paid the outstanding balance of the long-term debt of $6.7 million. At December 31, 2014 and as of the date of this MD&A, the Corporation has no long term debt.

The available amount under the $40 million revolving loan facility is limited to 65% of the net book value of the Canadian fixed assets plus 65% of the net book value of fixed assets in High Arctic Energy Services (Singapore) Pte. Ltd. limited to export guarantees provided by Export Development Canada ("EDC"), less priority claims. The amount available to draw under the $5 million revolving operating loan is limited to 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement. At December 31, 2014, no guarantee had been executed with EDC and the total credit available to draw under the facility was approximately $29.2 million.

The long-term debt agreement permits borrowing in Canadian or US dollars and contains an interest rate grid whereby the interest rate applicable to borrowings will vary according to the currency of the borrowings and a prescribed leverage ratio. An annual standby fee of 0.35% is charged on any undrawn portion of the facilities. The effective interest rate on the long-term debt was 4% on outstanding debt in both 2014 and 2013.

The Corporation's loan facilities are subject to four financial covenants, which are reported to the lender on a quarterly basis. These financial covenants are used by management to monitor capital and to assess the funds available to commit for capital expenditures, with the main focus on the Maximum Funded Debt to EBITDA and the Minimum Fixed Charge Coverage Ratios, which are measures that have no prescribed meaning under IFRS.

The **Funded Debt to EBITDA Ratio** is defined as the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing four quarters. Funded Debt is defined generally as indebtedness and liabilities which constitute debt in accordance with IFRS but excluding accounts payable, other short-term non-interest bearing liabilities and future income taxes. EBITDA is a defined term in the lending agreement and generally means net income plus interest expense, cash taxes payable, depreciation, amortization, future income taxes, share-based compensation and other non-cash expenses and excludes any gains or losses from the sale of assets. This ratio must be maintained below 2.50:1. For the rolling four quarters ended December 31, 2014, this ratio was 0:1 (2013 – 0.16:1).

The **Fixed Charge Coverage Ratio** is defined as EBITDA less cash taxes, dividends and unfunded capital expenditures divided by the total of principal payments on long-term debt (which is deemed to be $6.0 million per annum) and capital leases plus interest, all calculated on a consolidated basis for the trailing four quarters. This ratio must be maintained above 1.25:1. For the rolling four quarters ended December 31, 2014, this ratio was 5.0:1 (2013 – 4.46:1).

The **Debt to Tangible Net Worth Ratio** is defined as the ratio of total liabilities less postponed loans and subordinated debt and future income tax liabilities to shareholders' equity less intangible assets, deferred charges and shareholder advances. This ratio must be maintained below 2.50:1. At December 31, 2014, this ratio was 0.14:1 (2013 – 0.22:1).

The **Current Ratio** is defined as the ratio of consolidated current assets to consolidated net current liabilities (excluding the current portion of long term debt and other debt, if any). This ratio must be maintained above 1.50:1. At December 31, 2014, this ratio was 2.89:1 (2013 – 3.31:1).

The Corporation remains in compliance with all financial covenants under its long-term debt agreement.

Accounts Receivable

The aging of accounts receivables is as follows:

	December 31, 2014	December 31, 2013
Less than 31 days	16.7	21.0
31 to 60 days	3.9	0.6
61 to 90 days	0.2	0.6
Greater than 90 days	0.4	0.3
Allowance for doubtful accounts	(0.6)	(0.6)
Total	**20.6**	**21.9**

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

Canadian dollar	7.0	7.4
United States dollar (2014 – US$11.7; 2013 – US$13.6)	13.6	14.5
Total	**20.6**	**21.9**

The allowance for doubtful accounts provision is based on an individual account by account analysis. The Corporation's normal credit terms are net 30 days. Most significant account receivables outstanding at December 31, 2014 have since been collected and management believes that the balance in its allowance for doubtful accounts is adequate should any losses be incurred. 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.

Cash Flows

Operating Activities

Funds provided from operations for the year ended December 31, 2014 were $43.3 million (2013 - $35.3 million). After working capital adjustments, net cash generated from operating activities during 2014 was $43.8 million compared to $36.8 million for 2013. Funds provided from operations for the three months ended December 31, 2014 were $12.8 million (2013 - $10.8 million). After working capital adjustments, net cash generated from operating activities during Q4 2014 was $4.1 million compared to $9.9 million for Q4 2013. The changes in working capital and net cash generated for the quarter are considered normal, reflecting the differences in activity levels in business between the periods and the quarters that immediately preceded them.

Investing Activities

During the year ended December 31, 2014, capital expenditures were $55.7 million (2013 – $21.9 million). Most of the capital expenditures in 2014 were incurred on the acquisition and transportation of two heli-portable drilling rigs and the upgrading of one of the rigs. Additional costs have been incurred for upgrades to the Canadian Stand-Alone fleet and completion of the construction of a new facility in Grande Prairie, Alberta.

Financing Activities

Dividends

Dividends are recorded as a liability on the date of declaration by the Corporation's Board of Directors. High Arctic increased its monthly dividend to $0.015 per share in March, 2014, a 20% increase from the previous monthly dividends paid. Monthly dividends were again increased in November, 2014 to $0.0165 per share. The dividends declared in 2014 of $9.4 million ($0.18 per share) were 22% of funds provided from operations for the year (2013 –$7.2 million ($0.15 per share); 20% of funds provided from operations).

To the date of this MD&A, dividends totalling $0.033 per common share ($1.8 million) have been declared for 2015.

Issuance of Common Shares

On July 28, 2014, the Corporation completed a public offering of 5,051,000 common shares at a price of $4.95 per share for net proceeds of $23.6 million.

Repayment of Long-Term Debt

In August, 2014, High Arctic repaid the balance of its long-term debt of $6.7 million. As of the date of this MD&A, the Corporation has no long-term debt outstanding.

Industry Indicators and Market Trends in Papua New Guinea

The following table provides information for the last eight quarters to assist with the understanding of the PNG oilfield services industry and the effect that commodity prices have on industry activity levels. In addition, the Corporation's international financial results are impacted by fluctuations in the U.S. dollar to Canadian dollar exchange rate. Commodity prices have been higher in PNG than in Canada but have also experienced recent significant decreases.

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil and natural gas prices **Average for the period**								
Brent Crude Oil *(US $ /bbl)*	$77	$103	$110	$108	$109	$110	$103	$112
IPE Britain NBP Natural Gas (US$ /Mmbtu)	$8.66	$7.30	$7.59	$10.03	$11.37	$10.15	$10.00	$10.47
US/Canadian dollar exchange rate	1.14	1.09	1.09	1.10	1.05	1.04	1.03	0.99

The Corporation's PNG activity is based on longer term, U.S. dollar denominated contracts and thus is less affected in the short term by the volatility of oil and gas prices. The U.S./Canadian dollar exchange rate saw the US dollar trading at a monthly average premium of approximately 3% and an additional 7.5% premium has been realized on average during 2014. The Corporation benefits when the US dollar is valued at a premium to the Canadian dollar. This differential created a positive impact on the 2014 PNG financial results reported in Canadian dollars as compared to 2013.

The activity levels of our major customers in PNG is less dependent on short term fluctuations in oil and gas prices and instead is based on long term decisions, particularly with their significant interest in large scale LNG projects both onstream and in development. The price they receive for crude oil production is tied more closely to Brent crude oil prices, rather than West Texas pricing, and we understand that their gas output is contracted at a price tied to world oil prices on an energy equivalent basis.

Industry Indicators and Market Trends in Canada

The following table provides information for the last eight quarters to assist with the understanding of the Canadian oilfield services industry and the effect that commodity prices have on industry activity levels.

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil and natural gas prices **Average for the period**								
West Texas Intermediate *(US $ /bbl)*	$73	$97	$103	$99	$97	$106	$94	$94
AECO *(C$ /Mmbtu)*	$3.63	$4.03	$4.70	$5.63	$3.52	$2.43	$3.50	$3.08
Other industry indicators								
Well completions in Western Canada(1)	3,939	2,706	1,754	3,135	3,392	2,711	1,683	3,102
Gas well drilling in Western Canada(1)	807	351	421	540	610	289	282	447
Average drilling rig utilization rates(1)	47%	47%	24%	64%	45%	41%	18%	61%

(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 in Canada. High Arctic's business activity depends on the overall drilling and well completion activity in the industry and therefore on the level of spending by oil and gas companies. The Canadian oilfield services sector is cyclical and is significantly affected by the activity levels of exploration and production companies.

The trend to more field activity being directed at oil projects continued through the fourth quarter of 2014 given the past relative strength of oil prices and producers' approved budgets. Natural gas prices had improved quarter over quarter during the first nine months of 2014 due in part to cold weather in North America increasing demand but have since returned to levels more comparable to the natural gas prices of 2013. The AECO reference natural gas price averaged $3.13 per MMbtu in 2013 compared to $4.50 for 2014 with the fourth quarter average for 2014 being $3.63. Although the average price has increased, activity levels are not expected to significantly increase until a higher price is sustained for a longer period of time. Improvements in commodity prices in 2014 did lead to increased activity levels in Canada compared to 2013. However, recent declines in commodity prices have negatively impacted projected oilfield spending. The Canadian Association of Oilwell Drilling Contractors is currently forecasting the completion of only 6,612 wells for 2015 (2014 - 11,534 wells).

Quarterly Financial Review

Selected Quarterly Consolidated Financial Information (Three Months Ended)

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

$ (millions, except per share amounts)	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013
Revenue	**46.2**	**41.3**	**39.8**	**44.5**	**38.7**	**36.3**	**32.9**	**44.8**
Adjusted EBITDA	13.3	9.8	11.1	15.1	12.5	9.8	6.6	12.6
Net earnings	8.5	3.7	6.7	9.3	6.4	7.7	2.1	8.4
per share – basic	0.15	0.07	0.13	0.19	0.13	0.16	0.04	0.17
per share – diluted	0.15	0.07	0.13	0.18	0.13	0.16	0.04	0.17
Funds provided from operations	12.8	7.6	9.8	13.1	10.8	8.2	5.1	11.2

In Canada, frozen ground during the winter months tends to provide an optimal environment for drilling activities and consequently the first quarter is typically the strongest. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. Road bans, which are generally imposed in the spring, restrict the transportation of heavy equipment onto customer locations which reduces demand for services in the Canadian operation and, therefore, the second quarter is generally the weakest quarter of the year for the Corporation's operations in Canada. The activities in Papua New Guinea are not subject to seasonal variations. Heavy rainfall and dense clouds in the mountains provide operational challenges throughout the year but do not curtail operations for lengthy periods of time.

Outlook

While the sharp decline in oil prices in the fourth quarter of 2014 has significantly reduced oil field activities in most regions of the world, High Arctic's operation in PNG has not felt the effects of these declines as operators in PNG continue to focus on LNG development. For 2015, approximately three quarters of the Corporation's revenue is contracted and is in US dollars.

Rig 115 has completed the upgrading process and recently arrived in PNG. Once the rig is offloaded from the vessel and has cleared customs, it will then be mobilized to site to commence drilling operations. Rig 116 is in Houston being upgraded to satisfy the customers' requirements for operations in PNG. It is anticipated that the upgrading will be completed by the end of the second quarter. The rig will then be transported and mobilized in PNG in the third quarter of 2015 when it is expected to commence operations under a previously announced two year drilling services contract.

Rig 103, along with the 103 leap frog rig and ancillary rental equipment, continues to work in the Gulf Province of PNG. This work is now expected to continue through the third quarter of 2015 after which time the rig is expected to re-commence drilling activities with the primary customer under the existing contract which runs through to June, 2016.

Rig 104, along with the 104 leap frog rig, continues to operate in the PNG highlands. It is expected that the rig will be fully utilized through the third quarter of 2015 with the contracted customer. The customer has indicated that they may reduce their oilfield drilling program later in 2015 due to the significant decline in oil prices. Other companies in PNG are interested in accessing drilling equipment to help meet their commitments.

The existing complement of rental equipment in PNG continues to be sufficient for the current level of drilling activity. Matting utilization is expected to be between 60% - 75% throughout 2015, compared to 2014 where utilization varied between 100% at the beginning of the year to 60% by year end. In 2015, a matting rental contract with a major client concludes in stages throughout the year as their drilling program concludes. A number of these mats will be redeployed with Rig 116 in the third quarter of 2015. Management continues to evaluate new markets for expansion and redeployment of our rental assets.

Although activity levels for snubbing and nitrogen services were strong in Canada in the fourth quarter of 2014 despite falling oil prices, producers have since aggressively reduced their capital spending programs for 2015. As such, management expects to see a year over year decline in its Canadian business similar to the CAODC's forecasted well completion decline of 40%. This reduction will come from both declines in activity levels and reductions in pricing for both snubbing and nitrogen services rendered.

To help mitigate the expected decline in revenues, management is reducing the number of pieces of snubbing and nitrogen equipment that will be marketed in the year and is in turn reducing the support resources required for the equipment fleet. In addition to these reductions, management has also reviewed the corporate structure of the Canadian operations and identified areas to improve efficiencies and reduce the fixed cost structure supporting the business.

Customer Concentration

The Corporation's accounts receivable are predominantly with customers who explore for and develop petroleum and related reserves and are subject to normal industry credit risks. The Corporation assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of outstanding balances. The Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation provides services to two significant customers in Papua New Guinea. One customer represents approximately 35% of the Corporation's revenue for the year ended December 31, 2014 (2013 – 65%) and 16% of its accounts receivable at that date (2013 - 45%). The second customer represents approximately 28% of the Corporation's revenue for the year ended December 31, 2014 (2013 – nil) and 41% of its accounts receivable at that date (2013 – nil). A third significant customer is a major Canadian exploration and production company which represents approximately 8% of the Corporation's revenue for the year ended December 31, 2014 (2013 – 9%) and 2% of the Corporation's accounts receivable at that date (2013 – 2%). Management has assessed the three customers as creditworthy and the Corporation has had no history of collection issues with these customers.

Related Party Transactions

Loans

In 2014 the Corporation made loans to certain officers of the Corporation in the total aggregate amount of $0.2 million. The purpose of the loans was to assist the officers with the payment of Canadian income taxes arising on the issuance of common shares of the Corporation under the Corporation's EDSIP. 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 of the Corporation and (ii) August 15, 2017. As at December 31, 2014, the amount outstanding related to these loans was $0.2 million.

Office Lease

Effective July 1, 2014 the Corporation entered into a six month rental agreement with an officer of the Corporation for temporary office space at $2,000 per month which terminated on December 31, 2014. The related cost is included in general and administration expenses.

Contingent Liabilities and Commitments

Inventory

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

Other

The Corporation is party to legal actions arising in the normal course of business. A lawsuit was filed against the Corporation on January 8, 2015, alleging that a group of defendants including the Corporation breached their contract for the provision of well planning, drilling, completion, snubbing and/or testing services. The plaintiff claims damages in the amount of $20 million. It is not possible at this time to estimate the outcome of the lawsuit. The Corporation denies the allegations and has filed a Statement of Defence on March 2, 2015. No amounts have been recorded for any potential liability arising from this matter, as the Corporation cannot reasonably predict the outcome.

Management believes that the ultimate liability arising from these matters will have no material effect on the Financial Statements.

Property and Equipment

As at December 31, 2014, the Corporation had approximately $8 million of committed expenditures for the purchase of capital assets which were not yet recorded because the assets had not been delivered. On July 28, 2014, the Corporation completed the purchase of two heli-portable drilling rigs and associated ancillary equipment (the "Acquisition") for approximately US$29 million. The total amount to purchase, deliver, upgrade and commission the two rigs is currently estimated at approximately US$74 million (Cdn$86 million). This estimate includes a new rig camp, some ancillary equipment and customer requested upgrades all of which are recoverable from the customer through additional revenues. As of December 31, 2014, US$43.6 million (Cdn$48.2 million) of the expenditures had been incurred.

Cancellation of Performance Bond

On March 13, 2014, a performance bond posted by the Corporation in respect of a contract in the Middle East region was returned to the Corporation in full, without payment or draw down. The underlying letters of credit have been cancelled.

Contractual Obligations

In addition to the commitments and contingencies and related party transactions noted above, in the normal course of business, the Corporation incurs contractual obligations. The following are the contractual maturities of financial liabilities in their future undiscounted amounts as at December 31, 2014:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	17.6	-	-	-	17.6
Dividends payable	0.9	-	-	-	0.9
Total	**18.5**	**-**	**-**	**-**	**18.5**

Lease Obligations

The Corporation has entered into long-term premise leases for operating facilities. These leases are operating leases and the remaining length of the lease terms are up to five years. All of the premise leases have renewal terms which allow the Corporation to renew the lease for various lengths at the market rates negotiated at the time of renewal. The minimum lease payments for the next five years as at December 31, 2014 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	0.6	1.0	0.5	-	2.1
Total lease commitments	**0.6**	**1.0**	**0.5**	**-**	**2.1**

Risk Management and Uncertainties

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

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

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

The Corporation is also subject to specific risks.

Financing Risk

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

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

Liquidity Risk

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

Customer Concentration

Please refer to "Customer Concentration" section above.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk as its long-term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. As at December 31, 2014, no long-term debt amounts were outstanding.

Income Tax Risk

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

The Corporation must file tax returns in the foreign jurisdictions in which it operates. The tax laws and the prevailing assessment practices are subject to interpretation and the foreign authorities may disagree with the filing positions adopted by the Corporation. The impact of any challenges cannot be reliably estimated and may be significant to the financial position or overall operations of the Corporation.

Operational Risk and Insurance

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

Reliance on Key Personnel

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

Credit Risk

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

Risk of Foreign Operations

The Corporation operates in international locations, including Papua New Guinea, which displays characteristics of an emerging market. Operations in these countries may be subject to a variety of risks including, but not limited to: currency fluctuations, devaluations and exchange controls; inflation; uncertain political and economic conditions resulting in unfavourable government actions such as unfavourable legislation or regulation, trade restrictions, unfavourable tax enforcement or adverse tax policies; the denial of contract rights; and social unrest, acts of terrorism or armed conflict. To attempt to mitigate these risks, the Corporation employs personnel with extensive experience in the international marketplace, supplemented with qualified local staff. Management is unable to predict the extent or duration of these risks or quantify their potential impact.

Foreign Exchange Rate Risk

Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results. The majority of the Corporation's international revenue and expenses are transacted in U.S. dollars and the Corporation does not actively engage in foreign currency hedging. For the year ended December 31, 2014, a 1% nominal change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $0.9 million (2013 - $0.6 million) change in other comprehensive income and a $0.2 million (2013 – $0.2 million) change in net earnings for the year 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. Commodity prices affect the levels of drilling activity of the Corporation's customers, particularly with respect to natural gas, which primarily affects the Canadian business. The Corporation mitigates this exposure with its diversification into international operations not dependent on the Canadian oil and gas industry.

Dependence on Suppliers

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

Competition

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

Other

Additional risk factors relating to the Corporation are also outlined in the most recent Annual Information Form filed on SEDAR at www.sedar.com.

Critical Accounting Estimates and Judgments

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

Allowance for doubtful accounts

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

Amortization

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

Impairment of property and equipment

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

Income taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. The Corporation's calculation of income taxes involves many complex factors as well as the Corporation's interpretation of relevant tax legislation and regulations and estimations of future taxable profits. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Management does not currently expect to generate sufficient taxable income in future years to fully utilize its Canadian tax losses and has currently recognized a deferred tax asset based on estimated future taxable profits which are probable of being utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share-based compensation

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

Critical accounting judgments

Significant judgments are used in the application of accounting policies that have been identified as being complex and involving subjective judgments and assessments.

Functional currency

The determination of functional currency is based on the primary economic environment (including monetary policy) in which an entity operates. The functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Factors that the Corporation considers when determining the functional currency of its subsidiaries include: (i) the currency that the delivery of goods and services are contracted in , (ii) the currency used to conduct business in the region, (iii) the currency that mainly influences labour, material and other costs of providing goods or services, (iv) the currency in which receipts from operating activities are usually retained in. When the indicators are mixed and the functional currency of an entity is not obvious, management uses its judgment to determine the functional currency that most appropriately represents the economic effects of the underlying transactions, events and conditions. Judgment was applied in determining the functional currency of the operations in Papua New Guinea to be US dollars.

Changes in Accounting Policies

New standards and amendments effective for the first time

There are no IFRS or IFRIC interpretations that were effective for the first time for the fiscal year beginning on or after January 1, 2014 that had a material impact on the Corporation.

In May 2013, the IASB released an amendment to IAS 36, Impairment of Assets. This amendment requires entities to disclose how the recoverable amount of a cash generating unit has been measured when an impairment loss has been recognized or reversed. The amendment was effective January 1, 2014 and had no material effect on the Corporation's Financial Statements.

IFRIC 21, Levies, was developed by the IFRS Interpretations Committee ("IFRIC") and issued in May 2013. IFRIC 21 clarifies that an entity should recognize a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. IFRIC 21 was required to be adopted retrospectively for fiscal years beginning January 1, 2014 and its adoption has not had a material impact on accounting for property and other similar taxes, which do not meet the definition of an income tax in IAS 12, Income Taxes.

Future Accounting Policies

Financial Instruments

On July 24, 2014, the IASB issued IFRS 9, "*Financial Instruments*" ("IFRS 9") to replace International Accounting Standard 39, "*Financial Instruments: Recognition and Measurement.*" IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Corporation is currently evaluating the impact of adopting IFRS 9 on the Financial Statements.

Revenue Recognition

In May 2014, the IASB published IFRS 15, "*Revenue From Contracts With Customers"* ("IFRS 15") replacing IAS 11, "*Construction Contracts*", IAS 18, "*Revenue*" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is currently evaluating the impact of adopting IFRS 15 on the Financial Statements.

Disclosure Controls and Procedure

The Chief Executive Officer and the Chief Financial Officer have designed, or have caused to be designed under their supervision, the Corporation's disclosure controls and procedures, as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, to ensure timely and accurate preparation of financial and other reports. Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that material information required to be disclosed in its annual filings, interim filings or other reports filed by it under securities legislation is accurate and complete and filed within the time periods required and that information required to be disclosed is accumulated and communicated to the appropriate members of management to allow timely decisions regarding required disclosure.

The Chief Executive Officer and the Chief Financial Officer oversee this design and evaluation process and have concluded, based on their evaluation as at December 31, 2014, that the design and operation of the Corporation's DC&P, as defined by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, were effective. The Chief Executive Officer and the Chief Financial Officer have individually signed certifications to this effect.

High Arctic will continue to evaluate the DC&P and will make modifications when necessary. There were no changes in the Corporation's DC&P during the three months ended December 31, 2014 which have materially affected, or are reasonably likely to materially affect High Arctic's DC&P.

Internal Controls Over Financial Reporting

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

The Chief Executive Officer and Chief Financial Officer of the Corporation are responsible for designing, establishing and maintaining internal controls over financial reporting and each certifies on a quarterly and annual basis that senior management has designed such internal controls over financial reporting ("ICFR"), or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework used to design ICFR is the Internal Control – Integrated Framework (1992) ("COSO Framework") published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). No changes were made to ICFR during the three months ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, ICFR. The Chief Executive Officer and Chief Financial Officer of the Corporation directed the assessment of the design and operating effectiveness of the Corporation's internal controls over financial reporting as at December 31, 2014, and based on that assessment determined that the Corporation's internal controls over financial reporting was, in all material respects, appropriately designed and operating effectively.

The design of internal controls must also take into account resource constraints. It should be noted that a control system, including the Corporation's DC&P and ICFR, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met, and it should not be expected that the Corporation's DC&P and ICFR will prevent all errors or fraud.

Additional Information

Additional information on the Corporation, including the most recent Annual Information Form filed, may be found on SEDAR at www.sedar.com.