HIGH ARCTIC ENERGY SERVICES INC.

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ENERGY SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED
MARCH 31, 2015 AND 2014

MAY 08, 2015

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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 unaudited interim consolidated financial statements of High Arctic for the three months ended March 31, 2015 and 2014 and the condensed notes contained therein and the audited consolidated financial statements and notes thereto for the years ended December 31, 2014 and 2013 (the "Financial Statements"). This information is available at SEDAR (www.sedar.com). All financial measures presented in this MD&A are in Canadian dollars unless otherwise indicated. This MD&A is dated May 8, 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 timing of the utilization of Rig 115 and Rig 116, estimates of future profitability, 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

- Increases in PNG's drilling services offset lower Canadian revenues resulting in first quarter revenues for 2015 of $44.7 million (2014 - $44.5 million).
- The Corporation continues to invest in its business with a 2015 capital expenditure program of approximately $45 million to be paid from cash resources. The Company expects growth in both revenues and EBITDA in 2015.
- The first High Arctic owned heli-portable drilling rig arrived in PNG during the quarter and commenced earning moving rate revenues in mid-March. The second rig is scheduled to commence drilling in PNG in Q3 2015.
- Adjusted EBITDA was $10.4 million for the three months ended March 31, 2015 (2014 - $15.1 million). This reflects primarily the reduced activity levels in Canada. It was also partly impacted by PNG revenue increases from lower margin drilling services and reductions in higher margin rental revenue.
- High Arctic declared dividends of $2.7 million during the first three months of 2015 representing a trailing twelve month dividend payout of 26.5% of funds provided from operations (Q1 2014 - $2.0 million; 19.7%).

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 March 31			
$ millions (except per share amounts)	**2015**	**2014**	**Change**	**%**
Revenue	**44.7**	**44.5**	**0.2**	**-**
EBITDA(1)(2)	**9.5**	**14.2**	**(4.7)**	**(33)**
Adjusted EBITDA(1)(2)	**10.4**	**15.1**	**(4.7)**	**(31)**
Operating earnings	**6.9**	**11.8**	**(4.9)**	**(42)**
Net earnings	**4.8**	**9.3**	**(4.5)**	**(48)**
per share (basic)(3)	0.09	0.19	(0.10)	
per share (diluted)(3)	0.09	0.18	(0.09)	
Funds provided from operations(1)	**8.2**	**13.1**	**(4.9)**	**(37)**
per share (basic and fully diluted)(3)	0.15	0.26	(0.11)	
Dividends	**2.7**	**2.0**	**0.7**	
Capital expenditures	**21.1**	**1.5**	**19.6**	
Working Capital (1)	**27.4**	**53.3**	**(25.9)**	
Total assets	**207.4**	**149.3**	**58.1**	
Total non-current financial liabilities	**-**	**6.7**	**(6.7)**	
Net cash, end of period (1)	**28.4**	**36.2**	**(8.1)**	
Shares outstanding - end of period(3)	**55.3**	**50.1**		

(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 ended March 31:

($ millions)	2015	2014
Net earnings for the period	4.8	9.3
Add:		
Interest and finance expense	0.1	0.2
Income taxes	1.7	1.7
Amortization	2.9	3.0
EBITDA	**9.5**	**14.2**
Add:		
Share-based compensation	0.6	0.3
Foreign exchange loss	0.3	0.6
Adjusted EBITDA	**10.4**	**15.1**

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 ended March 31:

($ millions)	2015	2014
Net cash generated from operating activities	13.1	11.2
Add:		
Net changes in items of non-cash working capital	(4.9)	1.9
Funds provided from operations	**8.2**	**13.1**

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 March 31:

($ millions)	2015	2014
Cash and cash equivalents	28.4	42.9
Less:		
Long-term debt	-	(6.7)
Net cash	**28.4**	**36.2**

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

The diversity of High Arctic's operations resulted in the Corporation being able to maintain its revenues at the same level earned in the first three months of 2014. Revenues from the commencement of operations of Rig 115 in mid-March and a stronger U.S. dollar helped to offset the decreases in Canadian snubbing and nitrogen revenues and rental income earned in Papua New Guinea (PNG). During the first quarter of 2015, revenues of $44.7 million were earned (2014 - $44.5 million).

Lower gross margins realized due to a change in the service mix resulted in a decline in adjusted EBITDA to $10.4 million for the first quarter in 2015 from $15.1 million generated in the first three months of 2014. The decline in margins was not unexpected as the reduction in the PNG equipment rental utilization and decreased Canadian activity were previously anticipated. During the transition to the lower activity levels, gross margins were reduced in Canada while the Corporation found a balance between meeting its customers' needs and maintaining an efficient operation through rationalization measures. When drilling operations with Rig 115 commence, revenues and overall profitability will increase and then further increase with the arrival of Rig 116 in PNG, which is expected to occur in the third quarter of 2015.

During the first quarter of 2015, High Arctic continued to build its drilling operations in PNG through the refurbishment of the second heli-portable drilling rig that was acquired in 2014 and the acquisition of a rig camp, spare parts and ancillary equipment. Additions to property and equipment totalled $21.1 million in the first three months of 2015. In January, the refurbishment of Rig 115 was completed and it was shipped to PNG where it arrived and cleared customs by mid-March. Drilling operations are anticipated to commence mid-May for Rig 115, initiating its two year contract term, and in the third quarter of 2015 for Rig 116. The Corporation continues to respond to the customer's needs to supply additional equipment for its planned drilling program in PNG.

Despite the decline in adjusted EBITDA, the Corporation continues to generate strong cash flows from its operations relative to results prior to 2014, which was a record year for High Arctic. Net cash generated from operations including working capital was $13.1 million during the first quarter of 2015 as compared to $11.2 million for the same period in 2014.

At March 31, 2015, High Arctic had $28.4 million of cash on hand (December 31, 2014 - $37.2 million), no debt and working capital of $27.4 million (December 31, 2014 - $41.6 million). The Corporation continues to pay the monthly dividend of $0.0165 per share set in November, 2014. Dividends paid in the first quarter of 2015 increased by 35% to $2.7 million (2014 - $2.0 million). The Corporation anticipates that future earnings will support continued dividend payments.

Revenue

For the three months ended March 31, 2015, revenues were $44.7 million; a slight increase over the revenues generated during the first quarter of 2014 of $44.5 million with increased revenues of $5.7 million from PNG activities offsetting decreased revenues of $5.5 million from Canadian operations. PNG revenue increases during the quarter arose mainly from higher drilling rig utilization, the commencement of moving rate revenues from Rig 115 and the benefit of a stronger U.S. dollar. Decreases in rental revenues were experienced in PNG as the result of equipment returned in the second half of 2014. The redeployment of that equipment and rentals from recent additions acquired for Rig 115 and Rig 116 will help to offset these losses. The sudden and steep decline in oil prices has had a somber impact on oil and natural gas activities in Western Canada where High Arctic's operations declined by approximately 35% during the first quarter of 2015 as compared to the same period in 2014.

	Three Months Ended March 31			
($ millions)	**2015**	**2014**	**Change**	**%**
Revenue				
Papua New Guinea	35.2	29.5	5.7	19
Canada	9.5	15.0	(5.5)	(37)
Total	**44.7**	**44.5**	**0.2**	**<1**

Operations in PNG

High Arctic continues to manage and operate two heli-portable drilling rigs (Rigs 103 and 104) owned by a customer in PNG. Both drilling rigs were fully active during the first quarter of 2015 and for all but thirteen days of the first quarter of 2014. Rig 115 commenced revenue generating activities in mid-March at a "moving" rate and it is anticipated that the higher daily drilling rate will commence in mid-May upon the spudding of its first well. PNG's rental fleet includes 9,838 Dura-Base® mats, of which High Arctic exited 2014 with approximately 6,800 mats under contract which increased to approximately 7,400 by the end of March, 2015. The Corporation also generates revenues from a heli-portable camp, and various rolling stock, cranes and other oilfield equipment. The heli-portable camp owned by High Arctic had been stacked at a lower rate under contract since mid-August 2014 but in March, 2015 it was reactivated and earning full lease rates.

During the three months ended March 31, 2015, revenue from the PNG operations increased by 19% to $35.2 million from $29.5 million earned during the same period in 2014. Increased drilling revenues due to both Rig 103 and Rig 104 being fully utilized during the quarter and the commencement of mobilization revenues from Rig 115 offset the lower rental revenues which were a result of the return of equipment by other customers in the fourth quarter of 2014. The Corporation also benefitted from the effects on revenue of a stronger U.S. dollar during the first quarter with the exchange rate averaging 1.241 (First quarter of 2014 – 1.104).

Operations in Canada

As anticipated, the Corporation's activities in Canada were reduced due to decreased drilling and completion activities experienced as a result of depressed oil and natural gas prices. Total equipment utilization for the first quarter of 2015 was 37% compared to 56% for the same period in 2014. Equipment utilization is determined by dividing the number of twelve hour days a unit operates by the total number of days in the relevant period. For the three months ended March 31, revenue generated by snubbing services decreased by 34% from $10.7 million for 2014 to $7.1 million for 2015. For the first quarter of 2015, nitrogen revenues were $1.7 million, a 51% decline from the $3.5 million generated in the three months ended March 31, 2014.

Oilfield Services Expense and Oilfield Services Operating Margin

Oilfield services expenses increased as a result of increased drilling activity in PNG and an approximate 14% gain in the average value of the U.S. dollar during the first quarter of 2015 as compared to the same period in 2014. Together, these increased PNG expenses in excess of the decreased oilfield services expenses from operations in Canada by $4.3 million.

	Three Months Ended March 31			
($ millions)	2015	2014	Change	%
Oilfield services expense	**30.7**	**26.4**	**4.3**	**16**
Percent of revenue	69%	59%		
Oilfield services operating margin	**14.0**	**18.1**	**(4.1)**	**(23)**
Percent of revenue	31%	41%		

Consolidated oilfield services operating margins were impacted by i) decreased rental revenues in PNG which generally earn higher margins than other activities, ii) lower activity levels in Canada which resulted in higher operating costs as a percentage of revenues. In Canada, operating margins were significantly lower during the first three months of 2015 than in 2014 as a result of the transitioning from a period of very high activity to much lower utilization as the Corporation adjusted to its customers' reduced drilling and completions programs. Personnel and equipment were utilized at a lower rate in 2015 than during the first three months of 2014. and iii) a decrease in the total oilfield services operating margin percentage occurred due to a higher percentage of the revenues being derived from drilling rig lease income for the three months ended March 31, 2015 ($10.6 million, 24% of revenues) as compared to the same period in 2014 ($8.7 million, 20% of revenues). Such drilling rig lease charges are fully offset by lease expenses and generate no margin. A decrease of $4.3 million was realised in the oilfield services operating margin for the first quarter of 2015 over the same period in 2014.

Both fixed and variable costs that, in total, do not increase or decrease by the same proportion as changes in revenue and activity levels, are included in oilfield services expenses. The Corporation maintains a scalable cost infrastructure wherever possible which adjusts to changing activity and provides substantial operating leverage when activity changes. Operating costs have been reduced wherever possible, especially in Canada, over the first quarter of 2015 and the impact of the reductions should be realized in future quarters.

Oilfield services expenses by nature

	Three Months Ended March 31	
($ millions)	2015	2014
Personnel costs and personnel related costs	13.2	11.7
Drilling rig and other rental costs	11.0	8.9
Material and supplies cost	4.4	3.1
Equipment operating and maintenance costs	1.9	2.5
Other	0.2	0.2
	30.7	26.4

Personnel costs increased in the first quarter of 2015 over the same period in 2014 due to both Rig 103 and Rig 104 being fully utilized during the quarter and Rig 115 commencing operations in the second week of March, 2015. Such increases exceeded the reduction in personnel costs in the Canadian operations which were required in response to lower activity in the Western Canadian oilpatch. The full usage of Rigs 103 and 104 also increased drilling rig rental costs for the quarter as compared to the first three months of 2014. The increase in oilfield services expenses in 2015 is also partially explained by the increase in the average US dollar exchange rate to 1.241 for the first quarter of 2015 (first quarter of 2014 – 1.104).

General and Administration

	Three Months Ended March 31		
($ millions)	2015	2014	Change
General and Administration	**3.6**	**3.0**	**0.6**
Percent of revenue	8%	7%	

General and administration expenses (G&A) for the three months ended March 31, 2015 increased over the same period in 2014 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

	Three Months Ended March 31		
($ millions)	2015	2014	Change
Amortization	**2.9**	**3.0**	**(0.1)**
Percent of revenue	6%	7%	

Amortization decreased slightly for the first quarter of 2015 due to the lower net book value of the depreciable assets as compared to the first quarter of 2014 and also due to the disposal of certain assets in 2014.

Share-based Compensation

	Three Months Ended March 31		
($ millions)	2015	2014	Change
Share-based compensation	**0.6**	**0.3**	**0.3**
Percent of revenue	1%	<1%	

The increase in share-based compensation expense to $0.6 million for the first quarter of 2015 is due 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 2014.

Foreign Exchange Loss (Gain) in Net Earnings

	Three Months Ended March 31		
($ millions)	2015	2014	Change
Foreign exchange loss (gain) on cash held in U.S. dollars	**(1.4)**	0.1	
Foreign exchange loss on amounts due in U.S. dollars	**1.7**	0.5	
Foreign exchange loss	**0.3**	**0.6**	**(0.3)**
Percent of revenue	<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 not considered part of the Corporation's net investment 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 the first three months of 2015, the Canadian dollar lost approximately 10.65% of its value against the U.S. dollar as compared to 4.19% in the first quarter of 2014 and operating results were favourably impacted by the stronger US dollar.

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 March 31		
($ millions)	2015	2014	Change
Foreign currency translation gains for foreign operations	**10.8**	**3.3**	**7.5**

The U.S. dollar exchange rate increased from 1.1601 at the beginning of 2015 to 1.2666 on March 31, 2015 resulting in a foreign currency translation gain recognized in other comprehensive income of $10.8 million for the first quarter of 2015.

These gains were realized on the assets held by foreign subsidiaries during the first three months of 2014 as follows: cash - $1.6 million; property and equipment - $7.7 million and intercompany loan balances - $1.5 million.

For the first quarter of 2014, the U.S. dollar exchange rate increased from 1.0636 on December 31, 2013 to 1.1055 on March 31, 2014 resulting in a foreign currency translation gain recognized in other comprehensive income of $3.3 million. These gains were realized on the assets held by foreign operations during the first three months of 2014 as follows: cash - $1.2 million; property and equipment - $1.3 million; non-cash working capital items - ($0.2) million and intercompany loan balances - $1.0 million.

Interest and Finance Expense

The Corporation had no debt outstanding at March 31, 2015 compared to $6.7 million at March 31, 2014. High Arctic repaid $6.7 million of its long term debt in August, 2014. 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 2015 as compared to 2014 as a result of the reduced debt. Standby fees are calculated on the undrawn portion of the loan facility.

	Three Months Ended March 31		
($ millions)	2015	2014	Change
Interest and finance expense	**0.1**	**0.2**	**(0.1)**
Percent of revenue	<1%	<1%	

Income Taxes

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.

	Three Months Ended March 31		
($ millions)	2015	2014	Change
Current income tax expense	**1.8**	**1.7**	**0.1**
Percent of revenue	4%	4%	
Deferred income tax recovery	**(0.1)**	**-**	**(0.1)**

Earnings retained by subsidiaries that may be subject to dividend withholding taxes in the country of origin upon repatriation amounted to $64.2 million as at March 31, 2015 (December 31, 2014 - $61.8 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 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:

	March 31, 2015
Property and equipment	(2.5)
Non-capital losses	66.6
Financing costs	3.5
Total	**67.6**

Accounts Receivable

The aging of accounts receivables is as follows:

	March 31, 2015	December 31, 2014
Less than 31 days	20.4	16.7
31 to 60 days	2.1	3.9
61 to 90 days	0.2	0.2
Greater than 90 days	0.8	0.4
Allowance for doubtful accounts	(0.6)	(0.6)
Total	**22.9**	**20.6**

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

	March 31, 2015	December 31, 2014
Canadian dollar	5.1	7.0
United States dollar (2015 – US$14.1; 2014 – US$11.7)	17.8	13.6
Total	**22.9**	**20.6**

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 March 31, 2015 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.

Accounts Payable and Accrued Liabilities

Accounts payable consist of the following:

	March 31,2015	December 31, 2014
Accounts payable	11.8	9.3
Accrued liabilities	7.4	6.4
Accrued payroll	3.8	1.7
Total	**23.0**	**17.4**

Property and Equipment

The following tables provide a continuity of the property and equipment costs, net of impairment and accumulated amortization, and provide details of the effects of foreign currency translation for the year ended December 31, 2014 and the three months ended March 31, 2015.

Cost:	**Light vehicles**	**Heavy trucks**	**Oilfield equipment**	**Computer hardware and office equipment**	**Land & Building**	**Work-in-progress**	**Total**
Balance January 1, 2014	**2.0**	**12.4**	**140.7**	**2.8**	**1.2**	**6.6**	**165.7**
Additions	-	-	-	-	-	55.7	55.7
Disposals	(0.7)	(1.0)	(0.6)	-	-	-	(2.3)
Transfers	0.4	0.1	6.7	0.4	4.0	(11.6)	-
Effect of foreign exchange	-	-	5.5	-	-	2.4	7.9
Balance December 31, 2014	**1.7**	**11.5**	**152.3**	**3.2**	**5.2**	**53.1**	**227.0**
Additions	-	-	0.2	0.1	-	20.8	21.1
Disposals	-	-	(0.3)	-	-	-	(0.3)
Transfers	-	-	0.4	-	0.1	(0.5)	-
Effect of foreign exchange	-	-	6.2	-	-	4.9	11.1
Balance March 31, 2015	**1.7**	**11.5**	**158.8**	**3.3**	**5.3**	**78.3**	**258.9**

Accumulated amortization and impairments:	**Light vehicles**	**Heavy trucks**	**Oilfield equipment**	**Computer hardware and office equipment**	**Land & Building**	**Work-in-progress**	**Total**
Balance, January 1, 2014	**1.0**	**9.1**	**81.3**	**2.2**	**-**	**-**	**93.6**
Amortization for the period	0.3	0.5	11.6	0.3	0.1	-	12.8
Disposals	(0.1)	(1.5)	(0.3)	-	-	-	(1.9)
Effect of foreign exchange	-	-	2.6	-	-	-	2.6
Balance, December 31, 2014	**1.2**	**8.1**	**95.2**	**2.5**	**0.1**	**-**	**107.1**
Amortization for the period	0.1	0.1	2.6	0.1	-	-	2.9
Disposals	-	-	(0.2)	-	-	-	(0.2)
Effect of foreign exchange	0.1	0.1	3.2	-	-	-	3.4
Balance, March 31, 2015	1.4	8.3	100.8	2.6	0.1	-	113.2
Carrying amounts of property and equipment:							
At December 31, 2014	**0.5**	**3.4**	**57.1**	**0.7**	**5.1**	**53.1**	**119.9**
At March 31, 2015	**0.3**	**3.2**	**58.0**	**0.7**	**5.2**	**78.3**	**145.7**

Work-In-Progress

On July 28, 2014 the Corporation completed the acquisition of two heli-portable drilling rigs and ancillary equipment. The Corporation applied judgment to account for the acquisition as an asset acquisition, rather than a business combination. The rigs were packaged and shipped from Brazil to Houston to undergo upgrades required to meet the drilling standards in PNG and special adaptations requested by our customer under contract. The cost of each rig will remain in work-in-progress until it is shipped to its first wellsite in PNG. Included in work-in-progress is $0.1 million of capitalized general and administration costs. The first rig reached PNG in March, 2015 and is expected to commence drilling operations in May, 2015.

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 March 31, 2015, there were 55,301,252 issued and outstanding common shares.

During the three months ended March 31, 2015, a total of 6,000 stock options were exercised (year ended December 31, 2014 – 567,060) 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 May 7, 2015, 521,900 common shares have been purchased and cancelled pursuant to the Bid at a cost of $1.9 million.

As of the date of this MD&A, there were 55,252,752 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 March 31, 2015 and which may be cancelled under certain circumstances related to a three year vesting period.

Options

As at March 31, 2015, there were 3,331,600 options outstanding to acquire common shares of the Corporation at an average exercise price of $3.64 per share. Subsequent to March 31, 2015, 36,000 options have been forfeited and no options have been granted or exercised resulting in 3,295,600 options outstanding at an average exercise price of $3.62 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 is being 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. For the three months ended March 31, 2015, share-based compensation expense of $0.1 million related to the EDSIP shares was recognized (2014 – less than $0.1 million).

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 three months ended March 31, 2015, the Corporation incurred share based compensation expense of less than $0.1 million (2014 – 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 May 7, 2015 was $4.20 per share. Based upon the issued common shares on that date of 55,252,752, the Corporation has an approximate market capitalization of $232.1 million.

Liquidity and Capital Resources

Selected Capitalization Data:

($ millions except financial ratios)	March 31, 2015	December 31, 2014	Change
Current assets[1]	56.6	63.6	(7.0)
Current liabilities[2]	29.2	22.0	7.2
Working capital[3]	27.4	41.6	(14.2)
Working capital ratio[4]	1.9:1	2.9:1	(1.0:1)
Total debt	-	-	-
Total debt-to-capitalization percentage[5]	0%	0%	-
Cash and cash equivalents	28.4	37.2	(9.1)
Net cash[6]	28.4	37.2	(9.1)

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 $13.1 million for the three months ended March 31, 2015 (2014 - $11.2 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 $28.4 million as at March 31, 2015, 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 March 31, 2015, the main components of the Corporation's available credit facilities are a $40 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. At March 31, 2015 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 March 31, 2015, no guarantee had been executed with EDC and the total credit available to draw under the facility was approximately $27.5 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 2014.

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 March 31, 2015, this ratio was 0:1 (2014 – 0.15:1).

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 March 31, 2015, this ratio was 2.58:1 (2014 – 4.72:1).

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 March 31, 2015, this ratio was 0.17:1 (2014 – 0.21:1).

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 March 31, 2015, this ratio was 1.94:1 (2014 – 3.78:1).

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

Cash Flows

Operating Activities

Funds provided from operations for the three months ended March 31, 2015 were $8.2 million (2014 - $13.1 million). Including working capital adjustments, net cash generated from operating activities during the first quarter of 2015 was $13.1 million compared to $11.2 million for the same period in 2014. 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 three months ended March 31, 2015, capital expenditures were $21.1 million (2014 – $1.5 million). The majority of the capital expenditures in 2015 were incurred on the Rig 116 upgrades, the acquisition of a camp, spare equipment and rolling stock to support the Corporation's new rigs and the transportation of Rig 115 to PNG. Additional costs were incurred for upgrades and re-certifications of certain Canadian equipment.

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 during the first quarter of 2015 of $2.7 million ($0.0495 per share) were 33% of funds provided from operations during the period (Q1 2014 –$2.0 million ($0.04 per share); 15% of funds provided from operations).

To the date of this MD&A, dividends totalling $0.066 per common share ($3.6 million) have been declared for 2015.

Purchase of Common Shares for Cancellation

During the first three months of 2015, the Corporation purchased 473,400 of its Common Shares at a cost of $1.7 million (2014 – nil) pursuant to the terms of a Normal Course Issuer Bid (See Outstanding Share Data).

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.

	2015	2014				2013		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oil and natural gas prices **Average for the period**								
Brent Crude (*US $/bbl)*	$55	$77	$103	$110	$108	$109	$110	$103
IPE Britain NBP Natural Gas (US$ /Mmbtu)	$7.22	$8.66	$7.30	$7.59	$10.03	$11.37	$10.15	$10.00
US/Canadian dollar exchange rate	1.24	1.14	1.09	1.09	1.10	1.05	1.04	1.03

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 10% in 2014 and an additional 14% premium has been realized on average during the first quarter of 2015. The Corporation benefits when the US dollar is valued at a premium to the Canadian dollar. This differential created a positive impact on the 2015 PNG financial results reported in Canadian dollars as compared to 2014.

The activity levels of our major customers in PNG are less dependent on short term fluctuations in oil and gas prices and instead are based on longer term considerations, 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 their gas output is contracted at prices that are in part 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.

	2015	2014				2013		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oil and natural gas prices **Average for the period**								
West Texas Intermediate *(US $ /bbl)*	$49	$73	$97	$103	$99	$97	$106	$94
AECO *(C$ /Mmbtu)*	$2.75	$3.63	$4.03	$4.70	$5.63	$3.52	$2.43	$3.50
Other industry indicators								
Well completions in Western Canada(1)	2,075	3,939	2,706	1,754	3,135	3,392	2,711	1,683
Gas well drilling in Western Canada(1)	577	807	351	421	540	610	289	282
Average drilling rig utilization rates(1)	37%	47%	47%	25%	64%	45%	41%	18%

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

Recent decreases in the price of oil have had a material impact 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.

During the first quarter of 2015, natural gas prices returned to levels even lower than natural gas prices of 2013. The AECO reference natural gas price averaged $3.13 per MMbtu in 2013 compared to $4.50 for 2014 and the first quarter average for 2015 was $2.75. Activity levels will continue to be low until a higher price can be sustained. Improvements in commodity prices during the first half of 2014 did lead to increased activity levels in Canada compared to 2013. However, declines in oil prices have negatively impacted current and projected oilfield spending. The Canadian Association of Oilwell Drilling Contractors has forecasted 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)	Mar 31, 2015	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013
Revenue	**44.7**	**46.2**	**41.3**	**39.8**	**44.5**	**38.7**	**36.3**	**32.9**
Adjusted EBITDA	10.4	13.3	9.8	11.1	15.1	12.5	9.8	6.6
Net earnings	4.8	8.5	3.7	6.7	9.3	6.4	7.7	2.1
per share – basic	0.09	0.15	0.07	0.13	0.19	0.13	0.16	0.04
per share – diluted	0.09	0.15	0.07	0.13	0.18	0.13	0.16	0.04
Funds provided from operations	8.2	12.8	7.6	9.8	13.1	10.8	8.2	5.1

Various factors have affected the quarterly profitability of the Corporation's operations in both PNG and Canada. The major decline in recent oil prices has significantly decreased drilling and completion activities in Canada, resulting in lower revenues and decreased profit margins. In PNG, rental revenues, which have higher operating margins than drilling activities, decreased in the first quarter of 2015 as a result of contracts which terminated in late 2014. Increases in the value of the U.S. dollar over the Canadian dollar have contributed to increased revenues, profitability and funds provided from operations.

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 PNG 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 low global commodity price environment has created a new paradigm for the broader oil and gas industry and the Canadian industry continues to struggle with commodity price differentials, High Arctic's operations in PNG have not been affected to the same degree as our North American peers, as our clients continue to focus on LNG development. Demand for our services in PNG – which are contracted in US dollars – remains stable.

Rig 115, with the ancillary camp and equipment, completed customs clearance into PNG and is currently being rigged up on the first drilling site in preparation to spud in mid-May. Rig 116 is in Houston being upgraded to meet the contractual requirements for operations in PNG. The upgrades are expected to be completed by the end of the second quarter followed by mobilization to PNG. Rig 116 will then commence its initial two year contracted term upon the spudding of the first well, anticipated to occur in late August, 2015.

Rig 103, along with the 103 leap frog rig and ancillary rental equipment, is expected to continue to be fully utilized under an assignment agreement in the Gulf Province of PNG through the third quarter of 2015. Thereafter, the rig is expected to revert to its primary customer and recommence drilling activities 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 and it is expected that the rig will be fully utilized through the third quarter of 2015. The customer has indicated that they may reduce their oilfield drilling program later in 2015 due to the significant decline in oil prices. However, other operators in PNG have expressed interest in securing drilling equipment to allow them to meet their petroleum lease retention commitments.

Our fleet of rental equipment in PNG continues to be sufficient for the current level of drilling activity. With the recently announced matting supply contract, matting utilization is expected to be between 60% - 75% throughout 2015, compared to 2014 where utilization varied between 100% at the start 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 under the new contract in the third quarter of 2015. Management continues to evaluate new markets for expansion and redeployment of our rental assets.

In the first quarter of 2015, High Arctic's Canadian operation experienced its lowest utilization levels in the past ten years. Looking forward to the remainder of the 2015, management continues to expect activity levels to remain low. Steps were taken to rationalize our marketed fleet and associated infrastructure in the first quarter of 2015 in response to the new market environment. Management will vigilantly monitor activity levels and respond further in the second half of the year, if warranted.

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 PNG. One customer represents approximately 36% of the Corporation's revenue for the three months ended March 31, 2015 (2014 – 35%) and 23% of its accounts receivable at that date (2014 - 28%). The second customer represents approximately 37% of the Corporation's revenue for the three months ended March 31, 2015 (2014 – 18%) and 32% of its accounts receivable at that date (2014 – 8%). Management has assessed both 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 March 31, 2015, the amount outstanding related to these loans was $0.1 million.

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 PNG. 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 March 31, 2015, the Corporation had approximately $6.8 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$75.2 million (Cdn$87.1 million). This estimate includes a new rig camp, some ancillary equipment and customer requested upgrades all of which will generate additional revenues. As of March 31, 2015, US$59.3 million (Cdn$67.8 million) of the expenditures had been incurred.

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 March 31, 2015:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	23.0	-	-	-	23.0
Dividends payable	0.9	-	-	-	0.9
Total	**23.9**	**-**	**-**	**-**	**23.9**

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 March 31, 2015 are:

	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Facility lease commitments	0.6	1.0	0.4	-	2.0
Total lease commitments	**0.6**	**1.0**	**0.4**	**-**	**2.0**

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 March 31, 2015, 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 PNG, 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 three months ended March 31, 2015, a 1% nominal change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a change of $1.2 million (2014 - $0.9 million) change in other comprehensive income and a change of less than $0.1 million (2014 – $0.1 million) in net earnings for the period 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 PNG 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, 2015 that had a material impact on the Corporation.

Recent Accounting Pronouncements

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 March 31, 2015, 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 March 31, 2015 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 March 31, 2015 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 March 31, 2015, 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.