Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014

This Management's Discussion and Analysis ("MD&A") is a review of the results of operations, liquidity and capital resources of High Arctic Energy Services Inc. ("High Arctic" or the "Corporation"). The following discussion and analysis provided by High Arctic is dated March 11, 2016 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2015 and 2014. Additional information relating to the Corporation including the Corporation's Annual Information Form ("AIF") for the year ended December 31, 2015, is available on SEDAR at www.sedar.com. All amounts are expressed in Canadian dollars, unless otherwise noted, and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned that this MD&A contains certain forward-looking information. Please refer to the end of this MD&A for the Corporation's disclaimer on forward-looking information and statements. The definitions of certain non-IFRS financial measures are included on page 19 under the "non-IFRS Measures" section.

Select Comparative Financial Information

The following is a summary of select financial information of the Corporation.

	Three Months Ended December 31		Years Ended December 31		
$ millions (except per share amounts)	**2015**	**2014**	**2015**	**2014**	**2013**
Revenue	**58.0**	46.2	**209.9**	171.8	152.7
EBITDA(1)	**19.3**	13.2	**56.2**	47.2	42.7
Adjusted EBITDA(1)	**20.8**	13.3	**64.0**	49.3	41.5
Adjusted EBITDA % of revenue	**36%**	29%	**30%**	29%	27%
Operating earnings	**14.5**	9.7	**45.5**	35.3	30.8
Net earnings	**9.0**	8.5	**27.1**	28.2	24.6
per share (basic)(2)	**0.17**	0.15	**0.49**	0.54	0.51
per share (diluted)(2)	**0.17**	0.15	**0.48**	0.53	0.50
Adjusted Net earnings(1)	**9.7**	8.5	**31.9**	28.2	24.6
per share (basic)(2)	**0.18**	0.15	**0.58**	0.54	0.51
per share (diluted)(2)	**0.18**	0.15	**0.57**	0.53	0.50
Funds provided from operations(1)	**19.8**	12.4	**52.8**	42.9	35.3
per share (diluted)(2)	**0.36**	0.21	**0.96**	0.82	0.73
per share (diluted)(2)	**0.36**	0.20	**0.94**	0.80	0.72
Dividends	**2.7**	2.7	**10.9**	9.4	7.2
per share(2)	**0.05**	0.05	**0.20**	0.18	0.15
Capital expenditures	**0.6**	14.7	**40.0**	55.7	21.9
Working Capital			**43.2**	41.6	41.9
Total assets			**244.1**	188.7	137.1
Total non-current financial liabilities			**6.6**	0.4	6.7
Net cash, end of period (1)			**11.5**	37.2	27.0
Shareholders' Equity			**201.2**	165.6	111.8
Shares outstanding - end of period(2)			**54.4**	55.8	50.0

(1) Readers are cautioned that EBITDA, Adjusted EBITDA, Adjusted net earnings, Funds provided from operations, net cash and working capital do not have standardized meanings prescribed by IFRS – see "non IFRS Measures" on page 19.

(2) 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.

Corporate Profile

High Arctic is a publicly traded company listed on the Toronto Stock Exchange under the symbol "HWO".

High Arctic operates in two geographic areas within one operating segment which provides oilfield services to exploration and production companies operating in Canada and Papua New Guinea ("PNG"). The Corporation's largest operation is in Papua New Guinea where it provides drilling and specialized well completion services and supplies rigs, matting, camps and drilling support equipment on a rental basis. The Canadian operation provides snubbing services, nitrogen supplies and equipment on a rental basis.

Highlights

High Arctic's $95.7 million in capital investments over the last two years, combined with a stronger U.S. dollar and strong operational performance allowed High Arctic to achieve year over year revenue and EBITDA growth. These positive growth results were achieved in an otherwise challenging global market for the oil and gas industry, which is adapting to an extended low commodity price environment.

Fourth Quarter 2015:

- Revenue increased 26% to $58.0 million from $46.2 million in the fourth quarter of 2014.
- First full quarter of revenue contribution from all four heli-portable drilling rigs operated in PNG. This increased revenue contribution from PNG and a strong U.S. dollar in the quarter offset lower Canadian revenue, which was negatively impacted by lower industry activity levels.
- Increased revenue and the Corporation's continued focus on improving operational efficiencies and reducing operating costs resulted in a 56% increase in adjusted EBITDA to $20.8 million in the quarter from $13.3 million in the fourth quarter of 2014.

Full Year 2015:

- Revenue for 2015 was the highest in High Arctic's history totalling $209.9 million (2014 - $171.8 million).
- Adjusted EBITDA increased 30% to a record $64.0 million from $49.3 million in 2014.
- Commissioning of High Arctic's two new heli-portable drilling rigs was completed in 2015, with the rigs commencing commercial operations in the first and third quarters. High Arctic owns or operates four heli-portable drilling rigs in PNG, which currently represents 100% of the active heli-portable rigs operating in the country.
- Cost reduction initiatives undertaken throughout the year in both PNG and Canada offset contract concessions and lower equipment and rental utilization levels.
- High Arctic distributed a total of $16.6 million to shareholders in 2015 via $5.7 million in share buybacks under the Corporation's Normal Course Issuer Bid ("NCIB") and $10.9 million in dividends which represent 21% of funds provided from operations for the year.

2015 was a significant year for High Arctic as the Corporation executed on its PNG expansion plans initiated in 2014, which saw a material expansion of its drilling operations and market share in PNG through the purchase of two heli-portable drilling rigs. These two rigs are two of the most advanced heli-portable rigs currently operating in the world. In addition, High Arctic invested in additional rental equipment in 2015 to support the two new drilling rigs as well as niche growth opportunities in Canada.

Consistent with the growth in revenue and EBITDA for 2015, adjusted net earnings increased to $31.9 million ($0.58 per share) for the year ended 2015 from $28.2 million ($0.54 per share) in 2014. For the fourth quarter, adjusted net earnings increased to $9.7 million ($0.18 per share) from $8.5 million ($0.15 per share) in the comparative period.

The Corporation continues to maintain a strong balance sheet with a positive net cash position of $11.5 million at December 31, 2015 and a positive working capital balance of $43.2 million. Funds provided from operations were a record $19.8 million during the fourth quarter of 2015 and $52.8 million for fiscal 2015, an increase of 60% and 23%, respectively, over the comparative periods in 2014.

High Arctic's prudent fiscal management has placed the Corporation in a strong financial position to maintain the Corporation's existing dividend and share buyback programs in 2016 and provide financial flexibility to execute on potential growth opportunities that may present themselves in the current industry downturn.

Revenue

	Three Months Ended December 31				Year Ended December 31			
($ millions)	2015	2014	Change	%	2015	2014	Change	%
Revenue								
PNG	50.1	30.8	19.3	63%	177.8	123.5	54.3	44%
Canada	7.9	15.4	(7.5)	(49%)	32.1	48.3	(16.2)	(34%)
Total	**58.0**	**46.2**	**11.8**	**26%**	**209.9**	**171.8**	**38.1**	**22%**

Consolidated revenue increased 26% to $58.0 million in the fourth quarter of 2015 from $46.2 million in the fourth quarter of 2014. This increase was driven by the additional revenue contribution from the two new drilling rigs added to High Arctic's PNG fleet, combined with a 16% increase in the average U.S. dollar to Canadian dollar exchange rate. The increased revenue contribution was partially offset by a 49% decline in Canadian revenues due to lower industry activity levels in Canada.

On a full year basis, High Arctic generated record revenue of $209.9 million, which was a 22% increase over the $171.8 million in revenue generated in 2014. Although High Arctic's two new drilling rigs were not available throughout the entire year, their partial year revenue contribution as well as a 16% favorable increase in the average U.S. dollar exchange rate allowed the Corporation's PNG revenue to increase 44% over 2014. Partially offsetting the increased revenue from PNG was a 34% decline in Canadian revenues due to lower industry activity levels throughout 2015.

Operations in PNG

PNG's large, relatively unexplored resource base, low cost production and proximity to Asian markets, provides PNG with a competitive advantage over other higher cost LNG sources. This competitive advantage has led to the development of large long-term LNG projects in PNG, which has provided for growth in activity levels over the recent years.

In response to customer demand in PNG, High Arctic purchased two heli-portable drilling rigs in 2014 and completed extensive upgrades on the rigs to prepare them for the challenging PNG drilling environment. These two rigs are contracted to a large independent oil and gas exploration company operating in PNG on two year take-or-pay contracts. Revenue generation for the rigs commenced on the date each rig cleared customs in PNG and the two year contract term for each rig commences on the date each rig spuds its first well.

Upgrades on the first rig, Rig 115, were completed in the first quarter of 2015 and the rig commenced earning "moving rate" revenue in March 2015, which increased to its higher daily drilling rate in mid-June upon the spudding of its first well. Upgrades to Rig 116 were completed in the second quarter and Rig 116 commenced earning revenues at a "standby" rate upon clearance of PNG customs in late August. Rig 116's first well is not anticipated to be spudded until late 2016 or early 2017, at which time its two year contract term will commence.

In addition to the two new rigs owned by High Arctic, the Corporation continues to lease and operate two rigs (Rigs 103 and 104) owned by a customer in PNG. Both rigs were fully active throughout 2015 and for all but thirteen days in 2014. These rigs are operating under three year contracts which are due for renewal in June 2016. Management is currently in discussions with the customer regarding the renewal of these contracts.

The addition of the new rigs, combined with a 16% increase in the average U.S. dollar exchange rate during 2015 resulted in a 65% increase in PNG drilling revenue to $151.8 million for fiscal 2015 versus $92.1 million in 2014. With the full contribution of all four rigs in the fourth quarter of 2015, PNG drilling revenue increased to $43.2 million in the quarter, which was a 71% increase from the $25.2 million generated in the fourth quarter of 2014.

Partially offsetting the increased drilling revenue was an 18% decline in rental and other services revenue during the year to $25.9 million from $31.4 million in 2014. The Corporation's rental fleet includes approximately 10,000 Dura-Base® mats, of which approximately 5,700 mats were under contract at the end of 2015. Additional rental revenues are also generated from heli-portable camps and various trucks, cranes and other oilfield equipment. On a full year basis, rental revenue from this equipment was lower year over year; however, an increase in equipment associated with the addition of Rigs 115 and 116 resulted in an increase in equipment rental revenue in the fourth quarter to $6.9 million versus $5.7 million in the fourth quarter of 2014. A portion of the decline for rental revenues is also related to some equipment now being captured under the Corporation's drilling contract revenue.

The increased drilling revenue partially offset by the lower rental revenues resulted in a 44% increase in PNG revenue to $177.8 million for fiscal 2015 versus $123.5 million in 2014. With the full contribution of all four rigs in the fourth quarter of 2015, PNG revenue increased to $50.1 million, which was a 63% increase from the $30.8 million generated in the fourth quarter of 2014.

Operations in Canada

The sharp decline in world commodity prices in late 2014 and into 2015, combined with infrastructure constraints and regulatory uncertainty, has negatively impacted industry activity levels in Canada, resulting in lower demand and competitive pricing pressure for High Arctic's Canadian services.

As a result of the industry slowdown, the Corporation reduced its fleet of marketed snubbing units in 2015 to 9 units out of the Corporation's total owned fleet of 18 units. In conjunction with the reduced marketed units, the Corporation also reduced its operating support structure to reflect the reduced operating capacity. The remaining un-marketed units have been parked and will be reactivated as industry activity improves. Utilization for High Arctic's marketed snubbing units was 52% and 45% for year and fourth quarter 2015, respectively. In comparison, the Corporation marketed an average of 18 snubbing rigs in 2014 achieving utilization rates of 37% and 46% for the comparable periods. Equipment utilization is determined by dividing the number of twelve hour days a unit operates by the total number of days in the relevant period.

The reduced activity levels in 2015, combined with lower average pricing, generated a 34% decline in snubbing revenue to $22.4 million in 2015 versus $33.7 million in 2014. Similar impacts were seen in the fourth quarter, with revenue declining to $5.2 million from $11.1 million in the fourth quarter of 2014.

Similar to the decline experienced in the snubbing division, revenues for the Corporation's nitrogen and equipment rental services declined 45% for the year to $6.7 million from $12.1 million in 2014. Fourth quarter revenue declined to $1.8 million from $3.5 million in 2014. Nitrogen services are often supplied in conjunction with snubbing activities; however, the Corporation has also been pursuing opportunities to provide nitrogen services in conjunction with industrial and pipeline maintenance activities.

The lower snubbing and nitrogen service revenues generated a 34% decline in Canadian revenues in 2015 to $32.1 million from $48.3 million in 2014. The continued slowdown in the industry throughout 2015 and the further softening of revenue rates resulted in a 49% decline in revenues in the fourth quarter to $7.9 million from $15.4 million in the fourth quarter of 2014.

While these lower activity levels and pricing pressures are anticipated to continue in 2016, the Corporation has experienced higher levels of activity with its deeper capacity snubbing units. The units are suited for the deep long lateral horizontal wells that are currently being drilled in the industry.

Oilfield Services Expense and Operating Margin

	Three Months Ended December 31				Year Ended December 31			
($ millions)	**2015**	% (1)	**2014**	% (1)	**2015**	% (1)	**2014**	% (1)
Oilfield services expenses								
Personnel costs	**13.6**	23%	12.6	27%	**53.8**	26%	45.8	27%
Drilling rig and other rental costs	**9.3**	16%	10.2	22%	**42.9**	20%	37.8	22%
Material and supplies cost	**6.8**	12%	4.7	10%	**25.0**	12%	17.5	10%
Equipment operating and maintenance costs	**2.5**	4%	2.2	5%	**7.9**	4%	8.7	5%
Other	**0.7**	1%	0.1	0%	**1.5**	1%	0.8	0%
Total oilfield services expenses	**32.9**	57%	29.8	65%	**131.1**	62%	110.6	64%
Oilfield services operating margin	**25.1**	43%	16.4	35%	**78.8**	38%	61.2	36%

(1) Operating costs as a % of total revenue.

Consistent with the growth of High Arctic's PNG operation, oilfield service expense increased for fiscal 2015 and the fourth quarter. However, as a percentage of revenue, oilfield service expense decreased to 62% for the year and 57% for the fourth quarter, versus 64% and 65% in the comparative periods in 2014.

The primary drivers for the decrease in oilfield service expense as a percentage of revenue were:

- Economies of scale for fixed operating costs through the growth of the PNG operations. While fixed operating costs were required to support the growth of the PNG operations, the incremental cost added was smaller than the incremental contribution of the PNG revenue growth;
- A reduction in drilling rig rental costs as a percentage of revenue as High Arctic has full ownership of the two new heli-portable drilling rigs added in PNG. Partially offsetting this cost reduction was an increase in material and supplies costs, associated with operating these owned rigs. Maintenance costs will also be expected to increase; however, because these rigs are new, there was minimal impact to maintenance costs associated with these rigs in 2015;
- Rig 116 was not operating and was earning standby revenue; therefore, revenue was being generated with minimal operating costs, thus skewing margins higher than they would otherwise be under normal operations;
- In response to lower activity levels in Canada, management undertook a number of cost reduction initiatives, which have resulted in lower operating costs in the Corporation's Canadian operations. High Arctic maintains a scalable cost infrastructure wherever possible which adjusts to changing activity and provides substantial operating leverage when activity changes. The impact of the reductions was first seen in the second quarter and continues to be realized.
- Partially offsetting the positive margin impacts identified above was a reduction in higher margin equipment and matting rental revenue in 2015 versus 2014.

The above factors related to the PNG drilling rigs had a greater impact on High Arctic's fourth quarter results relative to the full year results as the fourth quarter was the first full quarter where both of the new rigs were within High Arctic's operating fleet. This impact is seen through the further reduction in operating costs as a percentage of revenue to 57% in the fourth quarter versus the 62% incurred for the full fiscal 2015 year.

General and Administration

($ millions)	Three Months Ended December 31 2015	2014	Change	Year Ended December 31 2015	2014	Change
General and administration	**4.3**	3.1	1.2	**14.8**	11.9	2.9
Percent of revenue	**7%**	7%		**7%**	7%	

General and administration expenses (G&A) for the three months and year ended December 31, 2015 increased over the same periods 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. As a percentage of revenue, G&A costs have remained consistent at 7%.

Loss on short-term investments

Since June, 2015 High Arctic has accumulated short term investments in select publicly traded oilfield service companies at a cost of $16.5 million. These investments were made by the Corporation as strategic investments while it evaluates potential acquisition opportunities. Subsequent to purchasing these investments, broad declines in market valuations for oilfield service companies in general have occurred. As a result of a decline in value in the third quarter, the Corporation recorded a $4.1 million impairment loss on the investments, which was recorded in the Corporation's third quarter net income. A further decline in value of $1.8 million was incurred in the fourth quarter, of which $0.7 million was recorded as impairment in the income statement, with the remaining $1.1 million recorded in other comprehensive income. All losses recorded on these investments are unrealized as the Corporation continues to hold the investments.

Amortization

Amortization cost increased to $16.7 million for the year versus $12.8 million in 2014. The increase in amortization cost is associated with the Corporation's $95.7 million capital expenditures made in 2014 and 2015. The majority of this capital expenditure relates to the two new drilling rigs that commenced operations in 2015, at which time amortization of the capital costs associated with these rigs began. Amortization cost for the fourth quarter of 2015 was $5.9 million which includes a full quarter of amortization for Rig 116.

Share-based Compensation

The increase in share-based compensation expense to $1.8 million for the year ended December 31, 2015, from $1.4 million in 2014, is attributable to full year impact of the share-based compensation expense for the Corporation's 2014 option grants, the majority of which were granted in the second half of the year. An additional 0.6 million stock options were granted in 2015.

Foreign Exchange Transactions

The Corporation has exposure to U.S. dollar and other currencies such as the Kina though its operations in PNG. As a result the Corporation is exposed to foreign exchange gains and losses through the settlement of foreign denominated transactions as well as the conversion of the Corporation's U.S. dollar based subsidiaries into Canadian dollars for financial reporting purposes.

Gains and losses recorded by the Canadian parent on its U.S. denominated cash accounts, receivables, payables and intercompany balances are recognised as a foreign exchange gain or loss in the statement of earnings.

High Arctic is further exposed to foreign currency fluctuations through its net investment in foreign subsidiaries. The value of these net investments will increase or decrease based on fluctuations in the U.S. dollar relative to the Canadian dollar. These gains and losses are unrealized until such time that High Arctic divests of its investment in a foreign subsidiary. These unrealized gains and losses are recorded in other comprehensive income as foreign currency translation gains for foreign operations for both 2015 and 2014.

During the year, the Canadian dollar incurred a significant decline in value relative to the U.S. dollar. The U.S. dollar exchange rate was 0.86 at December 31, 2014, fell to a low of 0.71 in December, 2015 and closed the year at 0.72. The average exchange rate for 2015 was 0.78. Since a significant portion of the Corporation's operations are conducted in U.S. dollars through its PNG operations, a decline in the Canadian dollar relative to the U.S. dollar generally had a positive impact on High Arctic's financial results, as evidenced in the Corporation's fiscal 2015 operating results.

While a weakening in the Canadian dollar relative to the U.S. dollar had a positive impact on High Arctic's 2015 operating results, it negatively impacted High Arctic through the Canadian parent's settlement and conversion of U.S. dollar denominated liabilities. As a result, the Corporation recorded $0.7 million in foreign exchange losses in net income for fiscal 2015.

Conversely, the weakening Canadian dollar results in an increase in the value of the Corporation's net investment in its U.S. dollar denominated subsidiaries. As a result, the Corporation recorded a $24.2 million unrealized gain in other comprehensive income related to the Canadian dollar increase in the Corporation's net investment in its U.S. dollar denominated foreign subsidiaries during 2015.

Interest and Finance Expense

While the Corporation has maintained a net consolidated positive cash balance throughout 2015, there are occasions when temporary advances are made on the Corporation's corporate debt facilities to meet Canadian cash needs when foreign funds are not immediately available. Interest on these temporary borrowings combined with fees associated with the Corporation's debt facilities amounted to $0.4 million for 2015, which is consistent with 2014. As at December 31, 2015, the Corporation had drawn $4.0 million on its debt facilities, which was fully repaid subsequent to year end.

Income Taxes

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Net earnings before income taxes	**13.3**	9.8	3.5	**39.1**	34.0	5.1
Current income tax expense	**3.1**	1.1	2.0	**10.8**	5.6	5.2
Deferred income tax expense	**1.2**	0.2	1.0	**1.2**	0.2	1.0
Total income tax expense	**4.3**	1.3	3.0	**12.0**	5.8	6.2
Percent of net earnings before income taxes	**32%**	13%		**31%**	17%	

The Corporation's effective tax rate increased to 31% in 2015 from 17% in the prior year. This increase was related to higher taxable income generated from 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. As a result of these existing tax pools, the Corporation has not recorded any tax expense for Canada during 2015. As at December 31, 2015, the Corporation had approximately $113.00 million in total tax pools available for use in Canada, of which the Corporation has only recorded a deferred tax asset value of $5.0 million on the Corporation's balance sheet.

In addition to the statutory income taxes applicable on net earnings generated in the Corporation's subsidiaries, withholding taxes may apply to certain distributions, such as dividends, made from the Corporation's subsidiary companies to the Corporate parent company. No distributions that are subject to withholding taxes were made in 2015. As at December 31, 2015, the Corporation's subsidiaries had approximately $81.6 million (2014 - $61.8 million) in undistributed earnings which could be subject to dividend withholding taxes. 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 as the Corporation controls the relevant entities and has no committed plans to repatriate the earnings in the foreseeable future.

Liquidity and Capital Resources

($ millions)	Three Months Ended December 31 2015	2014	Change	Year Ended December 31 2015	2014	Change
Cash provided by (used in):						
Operating activities	**5.7**	4.1	1.6	**45.5**	43.8	1.7
Investing activities	**(0.6)**	(11.5)	10.9	**(59.4)**	(52.0)	(7.4)
Financing activities	**(9.6)**	(2.6)	(7.0)	**(12.0)**	8.8	(20.8)
Effect of exchange rate changes	**(1.5)**	1.2	(2.7)	**4.2**	2.9	1.3
Increase (decrease) in cash and cash equivalents	**(6.0)**	(8.8)	2.8	**(21.7)**	3.5	(25.2)
Working capital[(1)]				43.2	41.6	1.6
Working capital ratio[(1)]				2.3:1	2.9:1	
Net cash[(1)]				11.5	37.2	(25.7)
Undrawn availability under debt facilities				21.5	29.2	(7.7)

(1) See non-IFRS measures

The Corporation manages its capital structure so as to provide the capital resources to meet the requirements of its business and instill confidence in investors, creditors and the capital markets. For the year ended 2015, the Corporation continued to maintain a strong balance sheet with no outstanding net debt, and significant financial resources available via working capital, cash and undrawn availability under the Corporation's debt facilities.

Management believes High Arctic's current capital resources, plus anticipated cash generated from operating activities in 2016, will be sufficient to meet the Corporation's planned 2016 capital expenditure program of $15.5 million and anticipated dividends and share repurchases under the Corporation's NCIB for 2016. Management will reassess the Corporation's capital resource needs as changes occur in the Corporation's business operations and as future growth opportunities arise.

Operating Activities

Consistent with the increase in EBITDA for 2015, funds provided from operations increased 23% to $52.8 million for 2015 from $42.9 million in 2014. After working capital adjustments, net cash generated from operating activities during 2015 was $45.5 million compared to $43.8 million for 2014. Funds provided from operations for the three months ended December 31, 2015 were $19.8 million (2014 - $12.4 million). After working capital adjustments, net cash generated from operating activities during the fourth quarter was $5.7 million compared to $4.1 million for 2014. The $14.1 million variance from funds provided from operations for the quarter relates mainly to a $13.2 million increase in accounts receivable in the quarter due to customer payment delays. The outstanding accounts have been received subsequent to year end.

Investing Activities

During the year ended December 31, 2015, capital expenditures were $40.0 million (2014 – $55.7 million), which primarily related to the completion of upgrades to the two heli-portable drilling rigs purchased in 2014 as well as the purchase of rental equipment.

During the year, High Arctic also accumulated $16.5 million in short term investments in select publicly traded oilfield service companies. These investments were made by the Corporation as strategic investments while it evaluates potential acquisition opportunities.

Financing Activities

The $12.0 million in funds used in financing activities during 2015 primarily relates to $10.9 million in dividend payments and $5.7 million in share purchases under the Corporation's NCIB. These outflows were partially offset by $4.0 million in proceeds from the Corporation's debt facilities, which were repaid subsequent to year end.

Throughout 2015, the Corporation declared a monthly dividend of $0.0165 per share which was an increase over the average monthly dividend paid in 2014 of $0.0150 per share.

During the year, the Corporation purchased 1,569,983 of its common shares under a NCIB at a cost of $5.7 million.

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 $24.6 million. These proceeds were partially offset by $9.1 million in dividends paid in 2014 and $6.7 million debt repayments in the Corporation's financing activities.

Credit Facility

High Arctic's credit facility consists of a $40.0 million revolving loan and a $5.0 million revolving operating loan. This facility matures on August 31, 2017, is renewable at the lender's consent and is secured by a general security agreement over the Corporation's assets. To the extent the credit facility is not renewed, any outstanding balance becomes immediately due and payable on the maturity date. At December 31, 2015 the Corporation had $4.0 million outstanding on the facility, and no balance remains outstanding as of the date of this MD&A.

The available amount under the $40.0 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, 2015, no guarantee had been executed with EDC and the total credit available to draw under the facility was approximately $21.5 million.

The Corporation's loan facilities are subject to three financial covenants, which are reported to the lender on a quarterly basis: Funded Debt to EBITDA; Fixed Charge Coverage Ratio; and Current Ratio.

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 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 as 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, 2015, this ratio was 0.06:1 (2014 – 0:1).

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 1/7 of the outstanding debt at the end of the period) 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, 2015, this ratio was 41.79:1 (2014 – 5.0:1).

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 1.25:1. At December 31, 2015, this ratio was 2.26:1 (2014 – 2.89:1).

The Corporation remains in compliance with all financial covenants under its credit facility.

Contractual Obligations and Contingencies

High Arctic's contractual financial obligations as at December 31, 2015 are summarized as follows:

($ millions)	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	23.6	-	-	-	23.6
Dividends payable	0.9	-	-	-	0.9
Operating and financial lease commitments	1.7	1.2	0.6	-	3.5
Long-term debt	0.2	4.1	-	-	4.3
Total	**26.4**	**5.3**	**0.6**	**-**	**32.3**

Litigation

The Corporation is party to legal actions arising in the normal course of business. A lawsuit and additional third party notices have been filed against the Corporation, 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 and third parties claim damages in the amount of $22 million. It is not possible at this time to estimate the outcome of the lawsuit and related third party notices. The Corporation denies the allegations and has filed a statement of defence in March 2015 relating to the lawsuit as well as three related statements of defence in February 2016 pertaining to the third party notices. The Corporation believes that an ultimate liability arising from these matters is not probable to have a material effect on the Financial Statements and no amounts have been recorded for any potential liability arising from this matter.

Inventory

As part of the Corporation's contractual rig management and operations, the Corporation has been supplied an inventory of spare parts with a value of U.S. $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.

Outstanding Share Data

The Corporation's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares. Directors, officers and certain employees have been granted stock options and incentive shares under the Corporation's approved equity compensation plans. As at March 10, 2016, there were 53,800,269 issued and outstanding common shares, including 58,800 shares held in the Executive and Director Share Incentive Plan, and 3,669,400 options outstanding at an average exercise price of $3.69.

On January 6, 2016, High Arctic renewed its NCIB for a further twelve months, from January 12, 2016 to January 11, 2017. As approved by the Toronto Stock Exchange ("TSX"), the Corporation may purchase up to 2,772,136 common shares, representing approximately 10% of the public float of High Arctic as of January 5, 2016. The maximum number of common shares that High Arctic may purchase on any given day is 17,154 common shares, which is 25% of the Corporation's average daily trading volume on the TSX for the last six months of 2015. High Arctic may also make one weekly block repurchase which exceeds the daily limit subject to prescribed rules. As of March 10, 2016, 588,500 common shares had been purchased since December 31, 2015 under the NCIB. All common shares acquired under the NCIB are cancelled.

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:

	2015				2014			
$ (millions, except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**58.0**	**58.5**	**48.7**	**44.7**	**46.2**	**41.3**	**39.8**	**44.5**
Adjusted EBITDA	20.8	18.7	14.1	10.4	13.3	9.8	11.1	15.1
Net earnings	9.0	6.1	7.2	4.8	8.5	3.7	6.7	9.3
per share – basic	0.17	0.11	0.13	0.09	0.15	0.07	0.13	0.19
per share – diluted	0.17	0.11	0.13	0.09	0.15	0.07	0.13	0.18
Adjusted net earnings	9.7	10.2	7.2	4.8	8.5	3.7	6.7	9.3
per share – basic	0.18	0.18	0.13	0.09	0.15	0.07	0.13	0.19
per share – diluted	0.18	0.18	0.13	0.09	0.15	0.07	0.13	0.18
Funds provided from operations	19.8	14.3	10.5	8.2	12.8	7.6	9.8	13.1

Various factors have affected the quarterly profitability of the Corporation's operations in both PNG and Canada. The major decline in oil prices has significantly decreased drilling and completion activities in Canada, resulting in lower revenues and decreased profit margins in 2015. In PNG, rental revenues, which have higher operating margins than drilling activities, decreased in 2015 as a result of contracts which terminated in late 2014. A portion of the decline for rental revenues is also related to some equipment now being captured under the Corporation's drilling contract revenue. In the second quarter of 2015, drilling operations began with the Corporation's own drilling rig in PNG which led to increased revenues, adjusted net earnings and funds provided from operations for all of the last three quarters of 2015. While increases in the value of the U.S. dollar over the Canadian dollar have contributed to increased revenues, the impact on earnings and funds flow has been offset by similar increases in oilfield services expenses which have also been affected by the exchange rate.

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. This period is generally referred to as spring break-up. 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 spring of 2015 was unusually dry in Western Canada and the Corporation was able to generate higher than expected revenues; however, not as high as the record revenues generated there in the second quarter of 2014. 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.

Industry Indicators and Market Trends in PNG

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			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil and natural gas prices **(Average for the period)**								
Brent Crude Oil *(U.S. $ /bbl)*	$45	$51	$64	$55	$77	$103	$110	$108
IPE Britain NBP Natural Gas *(U.S.$ /mmbtu)*	$5.75	$6.40	$6.64	$7.22	$8.66	$7.30	$7.59	$10.03
Japan LNG *(U.S.$/mmbtu)*	$9.03	$9.23	$9.18	$14.26	$15.70	$15.37	$16.41	$16.66
U.S./Canadian dollar exchange rate	1.34	1.31	1.23	1.24	1.14	1.09	1.10	1.05

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 U.S. dollar trading at a monthly average premium of approximately 10% in 2014 and an additional 17.1% premium has been realized on average during 2015. The Corporation benefits when the U.S. 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 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.

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil and natural gas prices **(Average for the period)**								
West Texas Intermediate *(U.S. $ /bbl)*	$42	$46	$58	$49	$73	$97	$103	$99
Canadian Light Sweet Oil *(Cdn $/bbl)*	$52.55	$55.09	$68.88	$53.28	$74.38	$97.71	$104.14	$99.76
AECO *(C$ /mmbtu)*	$2.48	$2.92	$2.67	$2.75	$3.63	$4.03	$4.70	$5.63
Other industry indicators								
Well completions in Western Canada(1)	1,165	1,398	654	2,075	3,332	2,706	1,754	3,135
Gas well drilling in Western Canada(1)	420	300	185	577	807	351	421	540
Average drilling rig utilization rates(1)	22%	24%	13%	37%	47%	47%	25%	64%

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

Recent decreases in the prices of oil and natural gas 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 2015, natural gas prices in Western Canada dropped to levels not seen since 2013. The AECO reference natural gas price averaged $3.13 per mmbtu in 2013 compared to $4.50 for 2014 and the average for 2015 was $2.70. Activity levels will continue to be low until a higher price can be sustained. The Canadian Association of Oilwell Drilling Contractors is currently forecasting the completion of only 4,728 wells for 2016 (2015 – 5,292; 2014 – 10,927 wells).

Outlook

High Arctic's significant exposure to PNG has been beneficial for the Corporation during the ongoing global low commodity price environment. The majority of drilling activity in PNG is associated with LNG development, and the country's vast reserves of gas are some of the most competitive globally. The LNG projects require significant upfront exploration and development, which extends over a long-term period. A significant portion of High Arctic's drilling activities in PNG are currently focused on exploration and appraisal drilling to support the development of PNG's second LNG facility, Papua LNG, as well as expansion for the existing LNG facility, PNG LNG. Development of these LNG facilities is led by large global oil and gas companies who have the capital resources necessary to undertake these long-term projects.

PNG is a relatively underexplored and underdeveloped resource base with vast reserves, which positions the country as one of the lowest cost LNG source for Asian markets. Management believes PNG's competitive position in the LNG market will continue to drive exploration and development activities in the country for the foreseeable future.

Rigs 103 and 104 remain active and are under contract until the end of June 2016. Rig 103 is currently mobilizing to a well in the Western Province for a new customer and Rig 104 is being prepared to commence drilling in Muruk. Activity for these rigs is expected to remain steady for 2016 and management continues discussions with its customer for contract renewals. Given the strong demand for top tier drilling services in the country, management is confident of a positive outcome from the negotiations.

Rig 115 has been fully utilized since entering PNG in the first quarter of 2015. The rig is currently assigned to the customer's joint venture partner in the Elk/Antelope field and is completing the first well for the joint venture partner. With this assignment, High Arctic continues to expand its customer base in PNG. Upon completion of this well, the rig will revert back to the original customer under its take or pay contract.

Rig 116 is currently on standby in Port Moresby awaiting assignment for its first well. Management anticipates that the rig will not be mobilized for its first well until the end of 2016 or early 2017. The rig is under a take or pay contract and is currently earning standby rates until it spuds its first well. The contract term will continue until two years after the first well is spudded.

Matting utilization in PNG is expected to be approximately 50% for 2016 as a number of mats came off contracts in the second half of 2015. Management is actively evaluating new markets for expansion and redeployment of its non-contracted mat inventory. Rental demand for the Corporation's remaining drilling support equipment and camps will continue to coincide with drilling activity in PNG.

In Canada, lower industry activities continue to impact High Arctic's operating results. However, a large percentage of the Corporation's Canadian activity is with larger exploration and development companies who have maintained a higher level of activity relative to smaller oil and gas companies in the current low industry activity cycle. Management continues to proactively adjust the Corporation's Canadian operating cost structure and to adapt to the current business environment. As a result, although equipment utilization levels are down, the Canadian operations have remained profitable.

Looking to 2016, the Company's contracted status in Papua New Guinea, continued delivery of high quality service and proactive cost management should result in further EBITDA growth when compared to 2015. However, a further strengthening of the Canadian dollar relative to the US dollar could soften some of the positive contributions on the Corporation's financial results experienced over the recent quarters due to the favorable US dollar exchange rate. Additionally, further capital budget reductions for the Corporation's customers may result in lower year over year equipment utilization in Canada.

Financial Instruments and Financial Risk Management

The classification and measurement of financial instruments the Corporation has recognized is presented below:

i) Cash and cash equivalents and accounts receivable are classified as financial assets at amortized cost.
ii) Short-term investments are designated as assets available for sale financial assets and are recognized at fair value. Changes in fair value are recognized in Other Comprehensive Income (OCI), unless there is a significant or prolonged decrease in the value of the asset, at which time the change in fair value is recognized in net earnings.
iii) Accounts payable and accrued liabilities, deferred revenue, income taxes payable, dividend payable and long-term debt are classified as financial liabilities at amortized cost.

The Corporation has exposure to credit, liquidity and market risk as follows:

Credit Risk

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

The Corporation's accounts receivable are predominantly with customers who explore for and develop petroleum reserves and are subject to normal industry credit risks. The Corporation assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding.

The Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation provides services to three significant customers in PNG. One customer represents approximately 47% of the Corporation's revenue for the year ended December 31, 2015 (2014 – 28%) and 45% of its accounts receivable at that date (2014 - 41%). The second customer represents approximately 30% of the Corporation's revenue for the year ended December 31, 2015 (2014 – 35%) and 15% of its accounts receivable at that date (2014 – 16%). A third significant customer represents approximately 5% of the Corporation's revenue for the year ended December 31, 2015 (2014 – nil) and 20% of the Corporation's accounts receivable at that date (2014 – nil). Management has assessed the three customers as creditworthy and the Corporation has had no history of collection issues with these customers.

At December 31, 2015, the Corporation's accounts receivable are aged as follows:

	December 31, 2015	December 31, 2014
Less than 31 days	23.8	16.7
31 to 60 days	12.6	3.9
61 to 90 days	5.1	0.2
Greater than 90 days	1.6	0.4
Allowance for doubtful accounts	(0.7)	(0.6)
Total	**42.4**	**20.6**

All material accounts receivable greater than sixty days have been received subsequent to yearend.

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.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market rates of interest, foreign currency exchange rates, commodity prices and other prices.

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, 2015, $4.0 million was outstanding on the Corporation's credit facilities. For the year ended December 31, 2015, a 1% change in interest rates would not have resulted in a material change in net earnings for the year.

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, 2015, a $0.01 change in the value of the Canadian dollar relative to the U.S. dollar would not have resulted in a material change in net earnings for the year as a result of changes in foreign exchange.

The Corporation's financial instruments have the following foreign exchange exposure at December 31, 2015:

(millions)	U.S. Dollar(1)	PNG Kina(2)	Australian Dollar(3)
Cash and cash equivalents	10.2	1.1	0.2
Trade and other receivables	25.8	3.4	-
Trade and other payables	(14.4)	(22.0)	(0.1)
Total	21.6	(17.5)	0.1

(1) As at December 31, 2015, one U.S. dollar was equivalent to 1.3840 Canadian dollars.
(2) As at December 31, 2015, one PNG Kina was equivalent to 0.4614 Canadian dollars.
(3) As at December 31, 2015, on Australian dollar was equivalent to 1.0083 Canadian dollars.

Commodity price risk

The Corporation is not directly exposed to commodity price risk as it does not have any contracts that are directly based on commodity prices. A change in commodity prices, specifically petroleum and natural gas prices could have an impact on oil and gas production levels and could therefore affect the demand for the Corporation's services. However, given that this is an indirect influence, the financial impact to the Corporation of changing petroleum and natural gas prices cannot be quantified.

Other price risk

Other price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer or factors affecting all similar financial instruments in the market or a market segment. Exposure to other price risk is primarily in short term investments where changes in quoted prices on investments in equity securities impact the underlying value of investment.

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.

Investments in Short term Investments
The Company's investments in common shares and debt instruments of publicly traded oil and gas service companies are accounted for as available-for-sale financial instruments are assessed at the end of each reporting period to determine whether there is any objective evidence of impairment. Management is required to exercise judgment to determine whether a decrease in the fair value of an investment below its carrying value is significant or prolonged, which would require an impairment charge to be recognized.

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 U.S. 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.

Future Accounting Policies

Leases
On January 13, 2016, the IASB issued IFRS 16, "*Leases*" ("IFRS 16"), which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases.

Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue, and what assets would be recorded.

IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 "*Revenue From Contracts With Customers*" has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 16 on the Financial Statements.

Financial Instruments
On July 24, 2015, 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, however, early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Corporation intends to early adopt IFRS 9 effective January 1, 2016. The Corporation is currently evaluating the impact of adopting IFRS 9 on the Financial Statements and anticipates its adoption effective January 1, 2016.

Revenue Recognition

In May 2015, 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, 2018, 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, 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 December 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") are designed to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Corporation's CEO and CFO are responsible for designing, or causing to be designed under their supervision, internal controls over financial reporting related to the Corporation, including its consolidated subsidiaries.

During the year, the Corporation's management, under the supervision of and with the participation of its CEO and CFO, completed an assessment on the design and effectiveness of ICFR. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework 2013. The assessment includes a risk-based evaluation, documentation and testing of key processes. All internal control systems, no matter how well designed, have inherent limitations.

Through management's assessment of the design and effectiveness of ICFR, no material weaknesses were found. The broad scope of senior management's oversight and strong entity level controls are expected to compensate for any non-material control weaknesses. In addition, non-material control weaknesses identified are mitigated by the active involvement of senior management in all the affairs of the Corporation; open lines of communication within the Corporation and its divisions; the present levels of activities and transactions within the Corporation being readily transparent; the thorough review of the Corporation's financial statements by management; and the existence of a Corporation whistle-blower policy.

Based on the evaluation of the design and operating effectiveness of the Corporation's ICFR, the CEO and CFO concluded that the Corporation's ICFR are effective as at December 31, 2015.

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.

Business Risks and Uncertainties

In addition to the financial risks discussed above under "Financial Instruments and Financial Risk Management", below under "Forward Looking Statements" and elsewhere in this MD&A, High Arctic is exposed to a number of business risks and uncertainties that could have a material impact on the Corporation. Prior to making any investment decision regarding High Arctic, investors should carefully consider the business risks and uncertainties described herein and in High Arctic's most recent Annual Information Form for the year ended December 31, 2015 as filed on SEDAR at www.sedar.com, a copy of which can be obtained on request, without charge, from the Corporation.

Non-IFRS 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

Adjusted EBITDA is calculated based on EBITDA (as referred to above) prior to the effect of loss on short term investments, share-based compensation, gains or losses on sale of assets or investments, excess of insurance proceeds over costs and foreign exchange gains or losses. Management believes the add-back for these items provides a more comparable measure of the Corporation's operational financial performance between periods. In addition, the add back of the loss on short term investment's reflects the anticipated accounting treatment for such losses under IFRS 9, which the Corporation anticipates adopting effective January 1, 2016. Adjusted EBITDA as presented is not intended to represent net earnings or other measures of financial performance 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:

	Three Months Ended December 31		Year Ended December 31		
$ millions	**2015**	**2014**	**2015**	**2014**	**2013**
Net earnings for the period	**9.0**	8.5	**27.1**	28.2	24.6
Add:					
Interest and finance expense	**0.1**	-	**0.4**	0.4	0.8
Income taxes	**4.3**	1.3	**12.0**	5.8	5.0
Amortization	**5.9**	3.4	**16.7**	12.8	12.3
EBITDA	**19.3**	13.2	**56.2**	47.2	42.7
Add:					
Loss on short-term investments	**0.7**	-	**4.8**	-	-
Share-based compensation	**0.4**	0.4	**1.8**	1.4	0.8
Loss (gain) on sale of assets	**-**	-	**0.5**	(0.2)	0.3
Excess of insurance proceeds over costs	**-**	-	**-**	-	(2.7)
Foreign exchange loss (gain)	**0.4**	(0.3)	**0.7**	0.9	0.4
Adjusted EBITDA	**20.8**	13.3	**64.0**	49.3	41.5

Adjusted Net Earnings

Adjusted net earnings is calculated based on net earnings prior to the effect of the loss on short term investments. Management believes the add-back for these losses provides a more comparable measure of the Corporation's operational financial performance between periods. In addition, the add back of the loss on short term investment's reflects the anticipated accounting treatment for such losses under IFRS 9, which the Corporation anticipates adopting effective January 1, 2016. Adjusted net earnings as presented is not intended to represent net earnings or other measures of financial performance calculated in accordance with IFRS. Adjusted net earnings per share and Adjusted net earnings per share – diluted are calculated as Adjusted net earnings divided by the number of weighted average basic and diluted shares outstanding, respectively.

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

	Three Months Ended December 31		Year Ended December 31		
$ millions	**2015**	**2014**	**2015**	**2014**	**2013**
Net earnings for the period	**9.0**	8.5	**27.1**	28.2	24.6
Add:					
Loss on short term investments, net of tax	**0.7**	-	**4.8**	-	-
Adjusted net earnings	**9.7**	8.5	**31.9**	28.2	24.6

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:

	Three Months Ended December 31		Year Ended December 31		
$ millions	**2015**	**2014**	**2015**	**2014**	**2013**
Net cash generated from operating activities	**5.7**	4.1	**45.5**	43.8	36.8
Less:					
Net change in items of non-cash working capital	**14.1**	8.3	**7.3**	(0.9)	(1.5)
Funds provided from operations	**19.8**	12.4	**52.8**	42.9	35.3

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:

	Year ended December 31		
$ millions	**2015**	**2014**	**2013**
Cash and cash equivalents	**15.5**	37.2	33.7
Less:			
Long-term debt	**4.0**	-	6.7
Net Cash	**11.5**	37.2	27.0

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 2016 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.