Management's Discussion and Analysis
For the Three Months Ended March 31, 2016 and 2015

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 MD&A is dated May 13, 2016 and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2016 and 2015 (the "Financial Statements") and the audited consolidated financial statements for the years ended December 31, 2015 and 2014. Additional information relating to High Arctic is available under the Corporation's profile 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 15 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 March 31		
$ millions (except per share amounts)	**2016**	**2015**	**% Change**
Revenue	**54.7**	44.7	22%
EBITDA(1)	**21.3**	9.5	124%
Adjusted EBITDA(1)	**21.8**	10.4	110%
Adjusted EBITDA % of revenue	**40%**	23%	74%
Operating earnings	**15.7**	6.9	128%
Net earnings	**11.2**	4.8	133%
per share (basic and diluted)(2)	**0.21**	0.09	133%
Funds provided from operations(1)	**18.9**	8.2	130%
per share (basic and diluted)(2)	**0.35**	0.15	133%
Dividends	**2.6**	2.7	(4%)
per share(2)	**0.05**	0.05	-
Capital expenditures	**5.1**	21.1	(76%)

	As At		
	March 31, 2016	**December 31, 2015**	**% Change**
Working Capital(1)	**44.1**	43.2	2%
Total assets	**236.6**	244.1	(3%)
Total non-current financial liabilities	**1.9**	6.6	(71%)
Net cash, end of period(1)	**20.5**	11.5	78%
Shareholders' Equity	**199.6**	201.2	(1%)
Shares outstanding(2)	**53.7**	54.4	(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 "non IFRS Measures" on page 15.

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

Papua New Guinea (“PNG”)
The Corporation’s largest operation is located in PNG where it has operated since 2007. High Arctic currently operates the largest fleet of tier-1 heli-portable drilling rigs in PNG, with two owned rigs and two operated rigs under operating and management contracts for one of the Corporation’s customers. In addition to the Corporation’s drilling operations, High Arctic also provides work-over services with its heli-portable work-over rig and also provides rental support equipment, including matting, camps and various pieces of rolling stock.

Canada
The Corporation’s Canadian operation is Western Canada’s market leader in providing snubbing services to energy producers. With 18 units available, High Arctic is uniquely positioned to service the increasing number of high pressure, longer depth horizontal wells being drilled in the Western Canadian Sedimentary Basin. The Corporation also provides nitrogen services as well as select rental equipment to producers.

Highlights

The doubling of High Arctic’s heli-portable drilling rig operations in PNG combined with strong operational performance, ongoing cost management and a favorable U.S. dollar exchange rate positively contributed to High Arctic’s financial results during the quarter:

- Revenue increased 22% to $54.7 million from $44.7 million in the first quarter of 2015. Revenue contribution from the two new owned heli-portable drilling rigs offset the impact of rate reductions introduced in June 2015 for the other two rigs operated by High Arctic as well as lower Canadian revenues, which were negatively impacted by lower industry activity levels.
- Contribution from the new owned heli-portable drilling rigs and aggressive cost management initiatives resulted in a 110% increase in adjusted EBITDA to $21.8 million from $10.4 million in the first quarter of 2015.
- The Corporation renewed its normal course issuer bid on January 12, 2016 and repurchased a total of 734,600 shares during the quarter for $2.4 million. These buybacks, combined with High Arctic’s $0.0165 per share monthly dividend resulted in $5.0 million being returned to shareholders during the quarter.

Consistent with the growth in revenue and EBITDA in the quarter, net earnings increased to $11.2 million ($0.21 per share) for the quarter ended March 31, 2016 from $4.8 million ($0.09 per share) in first quarter of 2015.

The Corporation continues to maintain a strong balance sheet with a positive net cash position of $20.5 million and a positive working capital balance of $44.1 million as at March 31, 2016. Funds provided from operations were $18.9 million during the quarter representing a 130% increase over the $8.2 million recorded in the first quarter of 2015.

High Arctic’s strong financial position allowed the Corporation to enhance its Canadian snubbing fleet during the quarter through the addition of two new high capacity snubbing units ideally suited for the industry’s current focus on high pressure, long-reach horizontal wells. High Arctic continues to seek opportunities to enhance and grow its operations during the current downturn.

Revenue

($ millions)	Three Months Ended March 31 2016	2015	Change	%
Revenue				
PNG	**48.2**	35.2	13.0	37%
Canada	**6.5**	9.5	(3.0)	(32%)
Total	**54.7**	44.7	10.0	22%

Consolidated revenue increased 22% to $54.7 million in the quarter from $44.7 million in the first quarter of 2015. This increase was driven by the revenue contribution from two new drilling rigs added to High Arctic's PNG fleet in 2015, combined with a 10% increase in the average U.S. dollar to Canadian dollar exchange rate, which accounted for approximately $3.6 million of the quarter over quarter revenue increase. The increased revenue contribution from PNG was partially offset by a 32% decline in Canadian revenues due to lower industry activity levels in Canada.

Operations in PNG

High Arctic continued to benefit in the quarter from the growth undertaken in its PNG drilling operations in 2015. The Corporation currently owns two heli-portable drilling rigs (Rigs 115 and 116) which commenced earning revenue in March 2015 and August 2015. These rigs are in addition to Rigs 103 and 104 which High Arctic operates on behalf of a major oil and gas exploration company in PNG.

Utilization of Rig 115 has been steady since it spudded its first well in June 2015 and during the quarter the rig was active drilling Antelope 6 in the Elk/Antelope field. This well was completed during the quarter and the rig was released from location in early April. Rig 116 remains on standby in Port Moresby waiting to be mobilized to its first well location. This rig will continue to generate standby revenue until it spuds its first well, which is currently not anticipated to be until late 2016 or early 2017.

Rig 103 completed drilling Antelope 3 during the quarter and began mobilizing to a well in the Western Province for a new customer. Activities in the quarter for Rig 104 were focused on preparing the rig for a high elevation drilling location in Muruk. The three year operations management contracts for Rigs 103 and 104 are due for renewal at the end of June 2016. Management continues to progress discussions with the customer regarding the renewal of these contracts.

The addition of the new rigs, combined with a strong U.S. dollar exchange rate in the quarter, offset reduced revenues from pre-spud drilling equipment utilized for rigs 103 and 104 and lower operations support revenue associated with cost reduction initiatives implemented in June 2015 to assist High Arctic's customer in reducing its field operating costs. The growth in the Corporation's drilling operation resulted in a 40% increase in PNG drilling revenue to $41.1 million in the quarter versus $29.2 million in comparative quarter in 2015.

High Arctic's PNG rental operations contributed $7.1 million in revenue during the quarter which was an 18% increase over the $6.0 million recorded in the first quarter of 2015. The Corporation's rental fleet includes approximately 10,000 Dura-Base® mats, of which an average of 6,450 mats were under contract during the quarter, exiting the quarter with 4,400 under contract. Additional rental revenues are also generated from heli-portable camps and various trucks, cranes and other oilfield equipment. Similar to the impact seen on the drilling operations, the strong U.S. dollar exchange rate positively impacted rental revenue in the quarter, which offset lower equipment utilization levels due to some equipment coming off contract as well as certain equipment now being included in the drilling contract rates which were previously included in rental revenue during the first quarter of 2015. The Corporation also benefitted from $1.0 million in non-recurring income for damaged and lost mats upon a contract expiry.

The increase in the PNG drilling and rental revenues resulted in a 37% increase in total PNG revenue in the quarter to $48.2 million from the $35.2 million generated in the first quarter of 2015.

Operations in Canada

Lower industry activity levels continued to hamper the Corporation's Canadian operations in the quarter. Industry drilling rig activity declined 48% in the first quarter of 2016 in comparison to the first quarter of 2015 (source: CAODC). While High Arctic's Canadian operations are not directly tied to the industry's drilling activity, the decline in activity provides an indication of the extent of the slowdown being experienced in the industry. Drilling activity levels are currently the lowest experienced by the industry in the Western Canadian Sedimentary Basin since 1992.

As a result of the industry slowdown, the Corporation has reduced its fleet of marketed snubbing units to 9 units from its total fleet of 19 units. In conjunction with the decreased number of marketed units, the Corporation also reduced its operating support structure to reflect the lower operating capacity. The remaining un-marketed units have been parked and will be reactivated as industry activity improves. Utilization for High Arctic's snubbing units was 22% (44% on marketed units) during the quarter versus 31% (55% on marketed units) in the first quarter of 2015. Equipment utilization is determined by dividing total operating hours generated in the period over the total available hours based on a ten hour day.

The reduced activity levels, combined with lower average pricing, generated a 34% decline in snubbing revenue to $4.7 million in the quarter versus $7.1 million in the comparative 2015 quarter.

Similar to the decline experienced in the snubbing division, revenues for the Corporation's nitrogen and equipment rental services declined 25% to $1.8 million in the quarter from $2.4 million in 2015. Nitrogen services are often supplied in conjunction with snubbing activities; however, High Arctic has also been pursuing opportunities to provide nitrogen services for industrial and pipeline maintenance activities.

The lower snubbing and nitrogen service revenues resulted in a 32% decline in Canadian revenues in the quarter to $6.5 million from $9.5 million in 2015.

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 high pressure, deep long lateral horizontal wells that are currently being drilled in the industry. As a result of the demand for these units, the Corporation added two higher-capacity, fully-guided snubbing units to its fleet in the quarter. One of the units is a 285k high capacity four post snubbing rig which is ideally suited for drill-out operations. This unit is a new design that is being leased by High Arctic under a one year lease which will provide the Corporation with an opportunity to assess the technical capabilities of the rig and its market acceptance.

The second unit is a newly refurbished 170k standalone snubbing unit which was purchased from a competitor in exchange for $0.8 million in cash and one of the Corporation's older lower capacity 120k standalone snubbing units, for a total consideration of $1.1 million. This unit is similar to the highest utilized unit in High Arctic's fleet and commenced field operations in April 2016. The support equipment previously utilized for the Corporation's 120k unit will be utilized with the new 170k unit, thus reducing the capital expenditures required to add this unit to High Arctic's fleet.

Oilfield Services Expense and Operating Margin

	Three Months Ended March 31			
($ millions)	2016	% [1]	2015	% [1]
Oilfield services expenses				
Personnel costs	**12.7**	23%	13.2	30%
Drilling rig and other rental costs	**8.9**	16%	11.0	25%
Material and supplies cost	**5.6**	10%	4.4	10%
Equipment operating and maintenance costs	**1.7**	3%	1.9	4%
Other	**0.3**	0%	0.2	0%
Total oilfield services expenses	**29.2**	53%	30.7	69%
Oilfield services operating margin	**25.5**	47%	14.0	31%

[1] Operating costs as a % of total revenue.

Despite the increase in revenue in the quarter versus the first quarter of 2015, operating costs declined to $29.2 million from $30.7 million in the prior year quarter. This decline in operating costs positively impacted oilfield services margins which increased in 2016 to $25.5 million (47% of revenue) from $14.0 million (31% of revenue) in the first quarter of 2015.

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

- 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.

- 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;

- 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. These cost reductions commenced in the first quarter of 2015 and continued throughout 2015. High Arctic maintains a scalable cost infrastructure wherever possible which adjusts to changing activity and provides substantial operating leverage when activity changes;

- 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 lower cost was an increase in material and supplies costs associated with operating these owned rigs. Maintenance costs will also be expected to increase; however, because the rigs are new, there was minimal impact to maintenance costs associated with these rigs in 2016;

General and Administration

	Three Months Ended March 31			
($ millions)	2016	2015	Change	%
General and administration	**3.7**	3.6	0.1	3%
Percent of revenue	**7%**	8%	(1%)	(13%)

Increased general and administrative costs in the Corporation's PNG operations were partially offset by reduced costs in Canada and Corporate. The increase in the PNG costs was driven by the growth of the PNG business as well as the impact of the stronger U.S. dollar. In addition, certain management support costs are now being captured by High Arctic which were previously being covered under the Corporation's drilling rig operating contracts. As a percentage of revenue, general and administrative costs have reduced to 7% from 8% in the comparative quarter.

Amortization

Amortization cost increased to $5.8 million in the quarter from $2.9 million in first quarter of 2015. The increase in amortization cost is associated with the two new drilling rigs and rental equipment added to High Arctic's fleet in 2015.

Share-based Compensation

The decrease in share-based compensation expense to $0.3 million from $0.6 million in first quarter of 2015, is a result of a higher number of options granted in 2014 versus 2015. The amortization costs associated with the Corporation's option grants is higher in the first year subsequent to the grant versus future years. 150,000 stock options were granted in the first quarters of both 2016 and 2015.

Foreign Exchange Transactions

The Corporation has exposure to the 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 and are recorded in other comprehensive income as foreign currency translation gains or losses for foreign operations.

The U.S. dollar remained strong during the quarter relative to the Canadian dollar, with an average exchange rate of 1.374. This strong U.S. dollar benefited the Corporation during the quarter as the majority of the Corporation's PNG business is conducted in U.S. dollars.

The strength of the U.S. dollar began to soften at the end of the quarter, with a closing exchange rate of 1.299 as at March 31, 2016. This lower exchange rate relative to the prior quarter end price of 1.384 as at December 31, 2015, resulted in a translation loss of $9.4 million being recorded in other comprehensive income for the three months ended March 31, 2016.

The fluctuation in exchange rates during the first quarter of 2016 also resulted in a $0.3 million foreign exchange loss being recorded on various foreign exchange transactions. The Corporation does not currently hedge its foreign exchange transactions or exposure.

Interest and Finance Expense

While the Corporation continues to maintain a net consolidated positive cash balance, there are occasions when temporary advances are made on High Arctic's corporate debt facilities to meet Canadian cash needs when foreign funds are not immediately available. In addition, the Corporation incurs fees to maintain its existing facilities. Interest on these temporary borrowings and fees amounted to $0.1 million in the quarter, which is consistent with 2015.

Income Taxes

	Three Months Ended March 31			
($ millions)	2016	2015	Change	%
Net earnings before income taxes	**15.4**	6.5	8.9	137%
Current income tax expense	**2.8**	1.8	1.0	56%
Deferred income tax expense	**1.4**	(0.1)	1.5	1,500%
Total income tax expense	**4.2**	1.7	2.5	147%
Effective tax rate	**27%**	26%	1%	4%

The Corporation's effective tax increased to 27% in the quarter from 26% in the first quarter of 2015. This increase was primarily 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 quarter. As at March 31, 2016, the Corporation had approximately $113.0 million in total tax pools available for use in Canada, of which High Arctic has recorded a deferred tax asset 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 High Arctic's subsidiary companies to the parent company. No distributions that are subject to withholding taxes were made during the quarter. As at March 31, 2016, the Corporation's subsidiaries had approximately $89.5 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.

Other Comprehensive Income

In addition to the impact of the $9.4 million foreign currency transaction losses for foreign operations discussed above, a $1.3 million gain was recorded in other comprehensive income during the quarter related to gains on short term investments. These gains relate to an increase in market value of strategic investments made by the Corporation in select publicly traded oilfield service companies while it evaluates potential acquisition opportunities.

Liquidity and Capital Resources

($ millions)	Three Months Ended March 31 2016	2015	Change	%
Cash provided by (used in):				
Operating activities	**21.1**	13.1	8.0	61%
Investing activities	**(5.1)**	(20.7)	(15.6)	(75%)
Financing activities	**(9.1)**	(4.3)	4.8	112%
Effect of exchange rate changes	**(1.9)**	3.1	(5.0)	(161%)
Increase (decrease) in cash and cash equivalents	**5.0**	(8.8)	13.8	157%

	As At March 31, 2016	December 31, 2015	Change	%
Working capital[(1)]	44.1	43.2	0.9	2%
Working capital ratio[(1)]	2.4:1	2.3:1	0.1:1	4%
Net cash[(1)]	20.5	11.5	9.0	78%
Undrawn availability under debt facilities	25.0	21.5	3.5	16%

[(1)] See non-IFRS measures

As at March 31, 2016, the Corporation continued to maintain a strong balance sheet with no outstanding debt and significant financial resources available via working capital, cash and undrawn availability under its debt facilities.

Management believes High Arctic's current capital resources, plus anticipated cash generated from operating activities in 2016, will be sufficient to meet its 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 its business operations and as future growth opportunities arise.

Operating Activities

Consistent with the increase in EBITDA during the quarter, funds provided from operations increased by 130% to $18.9 million from $8.2 million in the first quarter of 2015. After working capital adjustments, net cash generated from operating activities during 2016 was $21.1 million compared to $13.1 million for the first quarter of 2015.

Investing Activities

High Arctic incurred $5.1 million in capital expenditures related to the purchase of various rental equipment items in Canada and PNG and a 170k standalone snubbing rig. In addition to the $5.1 million incurred in cash expenditures, $2.5 million was invested through a capital lease to secure a new 285k four post snubbing unit. A 120k standalone snubbing unit, valued at $0.3 million, was exchanged as partial consideration for the purchase of the 170k unit.

Financing Activities

The $9.1 million in funds used in financing activities during the first three months of 2016 primarily relates to the $4.0 million repayment of outstanding long-term debt, $2.6 million in dividend payments and $2.4 million in share purchases under the Corporation's NCIB.

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 March 31, 2016, no balance was outstanding under the Corporation's credit facility.

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 March 31, 2016, no guarantee had been executed with EDC and the total credit available to draw under the facility was approximately $25.0 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. There have been no changes to these financial covenants subsequent to December 31, 2015 and the Corporation remains in compliance with the financial covenants under its credit facility as at March 31, 2016.

Contractual Obligations and Contingencies

High Arctic’s contractual financial obligations as at March 31, 2016 are summarized as follows:

($ millions)	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	17.7	-	-	-	17.7
Dividends payable	0.9	-	-	-	0.9
Operating and financial lease commitments	3.1	0.9	0.5	-	4.5
Total	**21.7**	**0.9**	**0.5**	**-**	**23.1**

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 $22.0 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 May 12, 2016, there were 52,577,869 issued and outstanding common shares, including 58,800 shares held in the Executive and Director Share Incentive Plan, and 3,321,100 options were outstanding at an average exercise price of $3.84.

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 May 12, 2016, 1,901,400 common shares had been purchased in 2016 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:

$ (millions, except per share amounts)	2016	2015				2014		
	Q1	Q4[(1)]	Q3[(1)]	Q2	Q1	Q4	Q3	Q2
Revenue	**54.7**	**58.0**	**58.5**	**48.7**	**44.7**	**46.2**	**41.3**	**39.8**
Adjusted EBITDA	21.8	20.8	18.7	14.1	10.4	13.3	9.8	11.1
Net earnings	11.2	9.7	10.2	7.2	4.8	8.5	3.7	6.7
per share – basic	0.21	0.18	0.18	0.13	0.09	0.15	0.07	0.13
per share – diluted	0.21	0.18	0.18	0.13	0.09	0.15	0.07	0.13
Funds provided from operations	18.9	19.8	14.3	10.5	8.2	12.8	7.6	9.8

(1) Net earnings for Q3 and Q4 for 2015 have been restated to reflect the full retroactive adoption of IFRS 9 - see Note 3 to the accompanying Financial Statements.

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 Canadian revenues and decreased profit margins in 2016 and 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 each quarter since Q1 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 partially offset by 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 2016 began much earlier than normal in early March and resulted in lower than anticipated activity levels for the quarter. 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.

	2016	2015				2014		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oil and natural gas prices (Average for the period)								
Brent Crude Oil *(U.S. $ /bbl)*	$35	$45	$51	$64	$55	$77	$103	$110
Japan LNG *(U.S.$/mmbtu)*	$7.95	$9.03	$9.23	$9.18	$14.26	$15.70	$15.37	$16.41
U.S./Canadian dollar exchange rate	1.37	1.34	1.31	1.23	1.24	1.14	1.09	1.10

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 has strengthened in 2016 and 2015 relative to the levels realized in 2014. The strong U.S. dollar relative to the Canadian dollar has benefited the Corporation's financial results in 2016 and 2015.

Activity levels for the Corporation's 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 on-stream and in development. Pricing for oil and natural gas production in PNG is generally tied to world prices such as Brent Crude and Asian LNG.

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.

	2016	2015				2014		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oil and natural gas prices (Average for the period)								
West Texas Intermediate *(U.S. $ /bbl)*	$33	$42	$46	$58	$49	$73	$97	$103
Canadian Light Sweet Oil *(Cdn $/bbl)*	$41.22	$52.55	$55.09	$68.88	$53.28	$74.38	$97.71	$104.14
AECO *(C$ /mmbtu)*	$1.83	$2.48	$2.92	$2.67	$2.75	$3.63	$4.03	$4.70
Other industry indicators								
Well completions in Western Canada(1)	801	1,165	1,398	654	2,075	3,332	2,706	1,754
Gas well drilling in Western Canada(1)	334	420	300	185	577	807	351	421
Average drilling rig utilization rates(1)	22%	22%	24%	13%	37%	47%	47%	25%

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

Decreases in the prices of oil and natural gas has had a material impact on drilling and well completion activities in Canada during 2016 and 2015. This decline in commodity prices has resulted in lower industry activity in 2016 and 2015, which has resulted in lower demand for the Corporation's services in Canada.

Outlook

High Arctic continues to benefit from revenue generated under term contracts in PNG, which is in contrast to the current lower activity levels being experienced in the Corporation's Canadian division. PNG's vast reserves of gas are some of the most competitive globally, which continues to attract investment in these projects by some of the world's largest oil and gas exploration and development companies. Nonetheless, the downturn in world energy markets is starting to be reflected in activity levels and pricing expectations.

Upon successfully completing the Antelope 6 well, Rig 115 was demobilized in April to Port Moresby to await its next well, anticipated to be in the fourth quarter of 2016. The rig will continue to generate its contracted standby revenue until it is mobilized to its next location. Rig 116 remains 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.

Rig 103 was assigned to a new customer in the first quarter of 2016 to complete a drilling program in the Western Province of PNG. Rig up was completed in April and drilling operations for this customer are anticipated to last until the third or fourth quarter of 2016.

Mobilization of Rig 104 to a high elevation location in Muruk has been delayed by the customer in order to avoid potential mobilization challenges associated with seasonal high rain fall in the area of activity. Mobilization activities are anticipated to recommence in the third quarter. Nominal revenue amounts are anticipated to be generated during this stand-down period as minimal operation support services will be provided. Management continues discussions with its customer on the contract renewals for Rigs 103 and 104.

Matting utilization in PNG is expected to be approximately 40% to 50% for 2016 and 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. The addition of the two new higher capacity snubbing units during the first quarter is expected to partially offset activity declines for the Corporation's other snubbing units. Management also continues to proactively adjust the Corporation's Canadian operating cost structure and to adapt to the current business environment.

While High Arctic's contracted status in Papua New Guinea, continued delivery of high quality service and proactive cost management have provided strong EBITDA performance, recent delays in customer drilling programs and a further strengthening of the Canadian dollar relative to the US dollar could soften the financial contribution from the Corporation's PNG operations in the upcoming quarters relative to the first quarter of 2016. Additionally, further capital budget reductions for the Corporation's customers may result in further utilization and rate reductions in Canada. Management will continue to monitor and proactively adapt to changes in the business environment in order to mitigate the negative impacts that may be caused by lower industry utilization levels.

Financial Risk Management

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 large multinational/regional customers in PNG. One customer represents approximately 20% of the Corporation's revenue for the three months ended March 31, 2016 (year ended December 31, 2015 – 47%) and 28% of its accounts receivable at that date (December 31, 2015 - 45%). The second customer represents approximately 33% of the Corporation's revenue for the three months ended March 31, 2016 (year ended December 31, 2015 – 30%) and 12% of its accounts receivable at that date (December 31, 2015 – 15%). A third significant customer represents approximately 26% of the Corporation's revenue for the three months ended March 31, 2016 (December 31, 2016 – 4%) and 25% of the Corporation's accounts receivable at that date (December 31, 2015 – 21%). Management has assessed the three customers as creditworthy and the Corporation has had no history of collection issues with these customers.

The Corporation's accounts receivable are aged as follows:

	March 31, 2016	December 31, 2015
Less than 31 days	23.6	23.8
31 to 60 days	10.6	12.6
61 to 90 days	1.1	5.1
Greater than 90 days	0.3	1.6
Allowance for doubtful accounts	(0.6)	(0.7)
Total	**35.0**	**42.4**

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

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 March 31, 2016, no balance was outstanding on the Corporation's credit facilities.

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 March 31, 2016, 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 March 31, 2016:

(millions)	U.S. Dollar(1)	PNG Kina(2)	Australian Dollar(3)
Cash and cash equivalents	14.8	1.0	0.1
Trade and other receivables	23.6	1.9	-
Trade and other payables	(13.2)	(31.7)	(0.1)
Total	25.2	(28.8)	-

(1) As at March 31, 2016, one U.S. dollar was equivalent to 1.2987 Canadian dollars.
(2) As at March 31, 2016, one PNG Kina was equivalent to 0.4240 Canadian dollars.
(3) As at March 31, 2016, on Australian dollar was equivalent to 0.9957 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

There have been no changes in High Arctic's critical accounting estimates in the three months ended March 31, 2016. Further information on the Corporation's critical accounting policies and estimates can be found in the notes to the annual consolidated financial statements and MD&A for the year ended December 31, 2015.

Changes in Accounting Policies

During the quarter the Corporation adopted, retroactively, IFRS 9, "*Financial Instruments*" ("IFRS 9"). IFRS 9 replaces 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 early adoption of IFRS 9 did not result in a change in the carrying value of any of High Arctic's financial instruments on transition date. The main area of change is the accounting for equity securities previously classified as available for sale which are now recorded at fair value through other comprehensive income. The revised policy of accounting for short term investments resulted in an decrease in retained deficit on December 31, 2015 of $4.8 million with a corresponding decrease in accumulated other comprehensive income. There was no impact on net income for the quarter ended March 31, 2016. Details of the effects of the adoption of IFRS 9 may be found in Note 3 of the Financial Statements.

Management believes the adoption of IFRS 9 better reflects the substance of High Arctic's short term investments as the gains and losses on these investments are not indicative of High Arctic's ongoing business operations and therefore, are more appropriately reflected in comprehensive income rather than net income.

Future Accounting Pronouncements

There have been no future accounting pronouncements since March 11, 2016 when the Corporation released its audited consolidated financial statements for the year ended December 31, 2015.

Evaluation of Disclosure Controls and Procedure and Internal Controls over Financial Reporting

There have been no changes in the Corporation's internal controls over financial reporting that occurred during the interim period ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect the Corporation's internal controls over financial reporting.

Business Risks and Uncertainties

In addition to the financial risks discussed above under "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 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 addback for these items provides a more comparable measure of the Corporation's operational financial performance between periods. 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 ended March 31:

	Three Months Ended March 31	
$ millions	**2016**	**2015**
Net earnings for the period	**11.2**	4.8
Add:		
Interest and finance expense	**0.1**	0.1
Income taxes	**4.2**	1.7
Amortization	**5.8**	2.9
EBITDA	**21.3**	9.5
Add:		
Share-based compensation	**0.3**	0.6
Gain on sale of property and equipment	**(0.1)**	-
Foreign exchange loss	**0.3**	0.3
Adjusted EBITDA	**21.8**	10.4

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:

	Three Months Ended March 31	
$ millions	**2016**	**2015**
Net cash generated from operating activities	**21.1**	13.1
Less:		
Net change in items on non-cash working capital	**(2.2)**	(4.9)
Funds provided from operations	**18.9**	8.2

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 and is calculated as follows:

	As At	
$ millions	**March 31, 2016**	**December 31, 2015**
Current assets	**75.9**	77.4
Less:		
Current liabilities	**(31.8)**	(34.2)
Working capital	**44.1**	43.2

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 follows:

	As At	
$ millions	**March 31, 2016**	**December 31, 2015**
Cash and cash equivalents	**20.5**	15.5
Less:		
Long-term debt	**-**	4.0
Net cash	**20.5**	11.5

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.