HIGH NORTH RESOURCES LTD.

Management's Discussion & Analysis

For the three months ended December 31, 2014

The purpose of this Management's Discussion and Analysis ("MD&A") is to explain management's point of view of High North Resources Ltd.'s ("High North" or the "Company") past performance and future outlook. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes as well as important trends and risks affecting the Company's financial performance, and should therefore be read in conjunction with the interim consolidated financial statements for the three months ended December 31, 2014 and the audited consolidated financial statements for the years ended September 30, 2014 and 2013 together with the accompanying notes.

Additional information on the Company is available on SEDAR at www.sedar.com under the Company's profile. All information contained in this MD&A is current as of February 27, 2015 unless otherwise stated.

The financial data included in this MD&A is prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee that are effective as at December 31, 2014.

Management of the Company ("Management") is responsible for the integrity of the information contained in this MD&A and for consistency between the MD&A and the consolidated financial statements. In preparing these statements estimates are necessary and Management believes any estimates have been based on careful judgments and are properly presented. In this MD&A, unless otherwise indicated, all monetary amounts are in Canadian dollars as are all references to "$". High North's Board of Directors ("Board") and Audit Committee have reviewed and approved the interim consolidated financial statements and MD&A for the three months ended December 31, 2014.

Readers should carefully read the sections "Non-IFRS Measures", "Forward-Looking Statements" and "Legal Advisories" below.

NON-IFRS MEASURES

This MD&A includes references to certain financial measures, as described below, which do not have standardized meanings prescribed by IFRS, however, as these measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors and they are measures that the Company uses to evaluate its performance. Investors are cautioned that these non-IFRS measures should not be construed as an alternative to the measures calculated in accordance with IFRS as, given their non-standardized meanings; they are unlikely to be comparable to similar measures presented by other issuers. The term "funds from (used in) operations", defined as the cash flow from operating activities, before the change in non-cash working capital and abandonment expenditures, should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income (loss) as determined in accordance with IFRS, as an indicator of performance. The Company's determination of funds from (used in) operations may not be comparable to that reported by other companies.

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements, pertaining to, among other things, the following: additional capital funding; the Company's ability to obtain such funding and the use thereof; the Company's ability to continue as a going concern; the exercise of options and warrants and completion of private placements and the use of proceeds thereof; the Revolving Facility (as defined herein); the existence of reserves; oil production rates and recovery from drilling operations; commercial viability of drilled wells; additional drilling locations; storage and transportation of oil and costs thereof; the timing, method, cost and recovery from drilling operations; commencement of gas conservation through the Company's proposed gas conservation facilities; infrastructure development and the timing and effects thereof; facilities construction and equipment installation and the costs, timing, location and effects thereof; the impact of the suspended delay payments; the decision to pursue the installation of cogeneration facilities or the potential to tie-in to an existing pipeline; the impact of the water handling facility on reducing operating costs; the timing and approach of the Company's next phase of capital expenditures; regulatory approvals and the Company's ability to obtain applicable permits; future operation, general and administrative expenditures and the anticipated impact of the reduction thereof;

performance and financial results; capital expenditures; the release of the escrowed shares; the Company's ability to realize its assets and discharge its liabilities; financial statements and MD&A adjustments; the Company's expected debt levels and cash flows; the Company's working capital deficiency and capital requirements; the ability of the Company to satisfy the interest and principal owed to debenture holders; the Company's risk management programs and the effects of risks and uncertainties, including those listed under the section "Risks & Uncertainties" herein, on the Company and its business prospects; estimates and assumptions made in accordance with IFRS requirements; the completion of the sixth Montney well; the effects of the foregoing on shareholder value; and the Company's ability to generate shareholder value.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company as of the date of such statements, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The estimates and assumptions of the Company contained in this MD&A, which may prove to be incorrect, include, but are not limited to: the general continuance of current or, where applicable, assumed industry conditions and the lack of any significant disruptions affecting operations, whether due to labour disruptions, supply disruptions, power disruptions, damage to equipment, adverse weather conditions or otherwise; the ability of the Company to obtain necessary permits; acquisition of lands; the Company's status as a going concern; costs and availability of equipment, labour, natural gas, fuel, oil, electricity, water and other key supplies; the accuracy of production data; the continuance of existing and, in certain circumstances, proposed tax and royalty regimes; the continuance of laws and regulations relating to environmental matters; the Company's ability to retain key employees and executives; assumptions relating to the costs of future wells; the accuracy of estimates of reserves volumes; the availability and timing of additional financing to fund the Company's capital and operating requirements as needed; and certain commodity price and other cost assumptions.

Statements regarding future production, capital expenditures and development plans are subject to all of the risks and uncertainties normally incident to the exploration for and development and production of oil and gas that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These risks include, but are not limited to: inflation or lack of availability of goods and services; changes in commodity prices; unanticipated operating results or production declines; third party pipeline issues; environmental risks; drilling risks; financial markets; economic conditions; volatility in the debt and equity markets; regulatory changes; changes in tax or environmental laws or royalty rates; and certain other known and unknown risks detailed from time to time in High North's public disclosure documents, copies of which are available on High North's SEDAR profile at www.sedar.com.

Although High North believes that the material factors, expectations and assumptions expressed in such forward-looking statements are reasonable based on information available to it on the date such statements were made, no assurances can be given as to future results, levels of activity and achievements and such statements are not guarantees of future performance. High North's actual results may differ materially from those expressed or implied in forward-looking statements and readers should not place undue importance or reliance on the forward-looking statements.

Statements including forward-looking statements are made as of the date they are given and, except as required by applicable securities laws, High North disclaims any intention or obligation to publically update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Legal Advisories

Additional information about the Company is available under High North's profile on SEDAR at www.sedar.com.

Certain natural gas volumes have been converted to barrels of oil equivalent ("**boe**") on the basis of one barrel to six thousand cubic feet. Any figure presented in BOE's may be misleading, particularly if used in isolation. The calculation of BOE's is based on a conversion ratio of six thousand cubic feet of natural gas to one barrel of oil based on an energy equivalency conversion primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of six to one, utilizing a BOE conversion ratio of 6 thousand cubic feet: 1 barrel may be misleading as an indication of value.

BASIS OF PRESENTATION

The Company was incorporated pursuant to the *Business Corporations Act* (British Columbia) ("**BCBCA**") on October 5, 2010. Included in the Company's consolidated financial statements and MD&A as at December 31, 2014 is Valleyview Exploration Inc. ("**Valleyview**"), a subsidiary owned 100% by the Company.

The Company is involved in the production, exploration and development of oil and gas properties in Alberta.

The Company is in the early stages of development with respect to its oil and gas activities. Six wells have been drilled to date. During the year ended September 30, 2014, two wells commenced production in the first quarter ended December 31, 2013 and one well commenced production in the second quarter ended March 31, 2014. An additional two wells were drilled and completed in the third and fourth fiscal quarters of 2014 and both produced during the fourth quarter ended September 30, 2014. The sixth well was drilled during the three months ended December 31, 2014. This well is being completed during February 2015. As such, the assets associated with these activities have generated revenues for approximately one year as at December 31, 2014 and will require significant capital funding to further develop facilities required. Current cash resources will not be sufficient to continue the exploration and development activities and continuing operations are dependent upon the Company's ability to obtain adequate funding for the development of its capital projects. Additional financing is subject to the financial markets, economic conditions, and volatility in the debt and equity markets. These factors have made, and will likely continue to make it challenging to obtain cost effective funding. There is no assurance that this capital will be available and as such, there exists a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Management believes the use of the going concern assumption is appropriate based upon the assumption that the Company expects to receive proceeds from the exercise of options and warrants and to complete further private placements to ensure that sufficient cash resources exist to meet its ongoing obligations as they become due in the normal course of operations.

OVERVIEW

High North is focused on the production, exploration and development of oil and gas properties in Alberta. The Company's head office is in Calgary, Alberta, Canada and its shares trade on the TSX Venture Exchange ("TSXV") under the symbol "HN".

Highlights for the first quarter ended December 31, 2014 include the following:

Administrative:

- In September 2014, Colin Soares resigned as a director and was replaced by Jamie Carlson.
- In December 2014, Kyle Stevenson resigned as a director and from his position as Investor Relations.
- In December 2014, Colin Soares resigned as President and CEO and was replaced by Paul Starnino as a director, President and CEO.

Operational:

- The Company had daily production of 311 barrels per day ("bbls/d") of oil in the first quarter versus 260 bbls/d in the previous quarter.
- As a result of lower oil prices, the Company recognized revenue, net of royalties, of $1.5 million in the first quarter ended December 31, 2014 versus $1.6 million in the fourth quarter ended September 30, 2014.
- The Company incurred total capital expenditures of $2.3 million in the three months ended December 31, 2014 on its exploration and evaluation assets and property and equipment combined.
- High North drilled the 08-09-76-21W5 exploratory well in Girouxville and will complete this well during February and March 2015.

Financial:

- The Company executed an agreement with a major Canadian financial institution for a demand revolving operating facility (the "facility") with an authorization of $10 million initially capped at $6.0 million.
- On December 30, 2014, the Company closed a private placement of approximately 12.9 million shares issued on a flow-through basis at $0.17 per share for approximately $2.2 million in gross proceeds.
- High North elected to relinquish leases on approximately 1,792 hectares which resulted in the recognition of approximately $1.1 million in exploration expense.
- High North elected to allow leases on approximately 192 hectares to expire which resulted in the recognition of approximately $22,000 in exploration expense.
- Due to declining commodity prices, the Company completed an impairment test which resulted in $4.0 million being recognized as an impairment.

Subsequent:

- In February 2015, the Company issued 2,275,000 options to certain directors and officers of the Company.
- In February 2015, Lawrence Walter resigned as a director.

PURCHASE OF VALLEYVIEW

The Valleyview assets consist of farmout agreements to acquire prospective oil and gas leases in the Peace River Arch area of north-western Alberta. The oil and gas leases are strategically concentrated with hydrocarbon potential ranging from the Cretaceous Dunvegan through to the Devonian Granite Wash formation. These leases may also have potential for Duvernay oil with a recent offset well flowing high gravity oil from this formation. It is anticipated that drilling and completion costs will be substantially less than in the Kaybob area as both the Montney and Duvernay formations lie at relatively shallower depths. The Company purchased 100% of the outstanding common shares of Valleyview with an effective date of May 15, 2013 and closing date of July 24, 2013.

REVIEW OF OPERATIONS

Girouxville / McLean

During the three months ended December 31, 2014, the Company drilled its sixth well which is currently being completed. The previous five wells have all been deemed successful and all were initially put on production. Currently, two of the wells were shut in as operational costs were exceeding revenues. An oil battery was completed and is being utilized to improve oil recoveries and to reduce operating costs.

In September 2014, management engaged GLJ Petroleum Consultants ("**GLJ**") to update its' initial reserve report on the five wells drilled, completed and producing to date. Management concluded that the GLJ report confirms the technical feasibility and commercial viability of all these wells.

The Alberta Energy Regulator ("**AER**") has recently granted approval to High North to flare the associated gas production until August 1, 2015 on the twenty contiguous sections currently being developed. The Company is currently pursuing either the installation of cogeneration facilities to allow the gas to be utilized as fuel gas with the excess being marketed to the electrical grid or the potential to tie-in to an existing pipeline.

During the second quarter ended March 31, 2014, the Company entered into an agreement to reduce the existing amount of royalty payable to the owners of certain lands from 8.0% to 5.0%. In April 2014 the Company paid $1.0 million to secure this reduction. A 2.5% royalty remains in effect and unchanged on other lands. As of June 30, 2014, this agreement had been amended whereby the option to pay the further sum of $4.0 million was extended, bearing an interest rate of prime plus one percent until October 31, 2014. The Company elected to not make the $4.0 million payment; therefore, the GORR reduction has been forfeited. In addition, this amendment also provides the Company with the opportunity to suspend the payment of certain delay payments relative to specific drilling obligations from July 1, 2014 to October 31, 2014.

In April 2014, the Company purchased seven sections of land resulting in 20.25 contiguous sections prospective for Montney rights adjacent to its current production in section 2-76-21W5M.

Management made the decision that in order for the Company to grow and add value, it would need to initially shrink its land base and preserve its capital resources in order to grow. The farmout agreements acquired through the acquisition of Valleyview required test wells to be drilled by specific dates on certain blocks of land. The rights to extend these dates could be made by paying delay penalties every month. Rather than continuing to pay these delay penalties, the Company elected to relinquish Blocks B, C, and D, which represents approximately 19,840 hectares and allowed leases on approximately 3,200 hectares to expire. The estimated total value of $3.1 million attributed to these lands was recognized as exploration expense on the statements of loss in the year ended September 30, 2014. The Company elected to relinquish Block I and certain lands in Block A in November 2014 which represents 1,792 hectares and recognized approximately $1.1 million in exploration expense in the three months ended December 31, 2014.

As of December 31, 2014, the Company owns 8,576 hectares of land with potential Montney rights. The Company anticipates drilling a minimum of four horizontal wells per section targeting Montney oil on these prospective lands.

Acquisition of land from Cava

On February 20, 2013, the Company executed an agreement with Cava Resources Inc. ("**Cava**") for the option to acquire a 100% working interest in certain leases near Boulder, Alberta including the rights to the Nordegg Formation for a six month term for $50,000 (the "**Cava Agreement**"). In order to exercise the option, the Company was to pay an additional $200,000 prior to the expiry of this six month term.

On September 18, 2013, the Company and Cava signed an agreement amending the terms of Cava Agreement with respect to the payment of the $200,000 for the exercise of this option. Payments were to be made through the issuance of 300,000 units to Cava, $10,000 upon execution of this amending agreement, $10,000 by October 1, 2013, $10,000 by November 1, 2013, and $65,000 by December 23, 2013. Each unit consists of one common share of the Company and one-half share purchase warrant, each whole warrant entitling Cava to purchase of one common share of the Company at a price of $0.50 per share for a period of two years from the date of issuance. This option is now exercised as the units were issued by the Company in October 2013 and the Company made the payments in accordance with the amending agreement.

The Company will consider drilling in this area when funding is available.

SELECTED FINANCIAL DATA

	Three months ended December 31		
	2014	2013	2012
Statement of Loss			
Petroleum and natural gas sales ($)	1,698,945	85,700	–
Petroleum and natural gas sales per boe ($)	59.36	61.74	–
General and administrative expense ($)	659,096	491,117	45,649
Net loss for the period ($)	(6,892,593)	(494,688)	(48,830)
Net loss per share – basic and diluted ($)	(0.12)	(0.01)	(0.01)
Statement of Cash Flows			
Funds used in operations ($) (1)	(904,157	(449,104)	(45,649)
Cash flow used in operations ($)	(1,068,870)	(316,225)	(75,744)
Capital expenditures ($)	2,324,691	5,053,862	–
Total assets ($)	18,059,716	17,034,404	131,414
Total liabilities ($)	14,089,797	5,853,992	31,755
Total shareholders' equity ($)	3,969,919	11,180,412	99,659
Weighted average number of shares			
- basic and diluted	59,465,670	43,880,091	3,707,865

(1) Funds from (used in) operations are a non-IFRS measure and mean operating cash flow prior to changes in non-cash working capital.

Five wells had been drilled and completed by December 31, 2014. The sixth well was drilled in the first fiscal quarter of 2015 and will be completed in the second 2015 fiscal quarter. The Company's first production commenced in the quarter ended December 31, 2013. New units and common shares were issued in the first quarter of 2015 and during Fiscal 2014 and 2013 through private placements resulting in a significant increase in shares outstanding when compared to prior periods. General and administrative costs increased with new management contracts, various professional fees, and public company and investor relations costs. In the first quarter ended December 31, 2014, the Company recognized $1.1 million in exploration expense which relates to the relinquishment of Block I and certain lands within Block A.

	Three months ended December 31	
Production	**2014**	2013
Oil (bbls/day)	**311**	46

The 09-02-76-21W5M and 16-02-76-21W5M wells in the Montney formation in the Girouxville area commenced production in November 2013. The 09-26-76-21W5M well commenced production in January 2014. The 08-21-76-21W5M produced 294 barrels ("bbls") of oil in June during the testing of the well and commenced production in August 2014. The 08-02-76-21W5M commenced production in July 2014. During the first quarter ended December 31, 2014, the wells produced total volumes of 28,620 bbls in comparison to 23,887 bbls in the fourth quarter ended September 30, 2014. The 09-26-76-21W5M well required the installation of pumping equipment which has been completed. Current production is estimated to be 300 bbls /d. Subsequent to December 31, 2014, both the 08-21-76-21W5M and 09-26-76-21W5M wells were shut in as their operating expenses were exceeding revenue. Gas production is currently being flared.

Commodity prices and revenue	Three months ended December 31	
.	**2014**	2013
Commodity prices		
Oil ($/bbl)	**59.36**	61.74
Revenues ($)		
Oil	**1,698,945**	87,500

The Company continues to facilitate the logistics of storage and transportation for the oil. During the fourth quarter ended September 30, 2014, a temporary battery was installed consisting of four storage tanks, flare stack and knock out drum. This facility resulted in reduced transportation costs to sales point and allowed for separation of the emulsion. Oil prices consistently declined resulting in an average price being $30 per barrel lower than the previous quarter. Prior to 2014, the Company did not generate revenue in Fiscal years ended September 30, 2013 and 2012.

Royalties, operating and transportation expenses	Three months ended December 31	
	2014	2013
Royalties ($)	**214,352**	11,284
% of revenues	**13%**	13%
$/boe	**7.49**	8.13
Operating and transportation expenses ($)	**1,143,855**	32,699
$/boe	**39.97**	23.56

During the three months ended December 31, 2014, operating expenses have been primarily related to the trucking of clean oil, equipment rentals, water disposal and various maintenance items. In addition, a workover was performed on one of the wells in an attempt to reduce the water production. With the purchase and construction of the storage tanks at a central battery, the Company's operating costs are expected to decline as trucking costs are reduced and the majority of the rental equipment is no longer required. Subsequent to December 31, 2014, the Company shut in two of the wells that were marginal producers and operating costs were in excess of revenue. These wells will remain shut-in until it has been determined what facilities will be available. With an addition of a water handling facility operating costs could be reduced significantly and the higher operating cost wells could be put back on production.

	Three months ended December 31	
Netbacks ($/boe)	**2014**	2013
Revenue	**59.36**	61.74
Royalties	**7.49**	8.13
Operating expenses	**39.97**	23.56
Field netbacks	**11.91**	30.05

General and administrative ("G&A") expense ($)

	Three months ended December 31	
	2014	2013
Management fees	**259,952**	117,000
Professional fees	**327,642**	118,009
Office and related costs	**75,982**	33,585
Public company reporting	**14,781**	9,198
Investor relation activities	**37,104**	237,025
Other (1)	**(56,365)**	(23,700)
	659,096	491,117

(1) *Other is related to the capitalization of overhead and salaries*

General and administrative expenditures for the three months ended December 31, 2014 were $659,096 as compared to $677,965 for the fourth quarter of fiscal 2014 and $491,117 for the comparative December 31, 2013 period. The majority of management contracts commenced in February 2013 resulting in substantially higher fees. Management fees of $23,700 were capitalized for the three months ended December 31, 2014 (December 31, 2013 - $23,700). Both management and professional fees, such as overseeing the drilling activities, accounting and legal, investor relations and public company costs have increased as a result of the increased operations of High North and the pursuit of new financing opportunities. In October 2013, the Company executed two management contracts for total fees of $154,000 for investor relations services. In May 2014, another investor relations service contract was signed for US$6,000 per month for a period of 10 months and the granting of 200,000 options. This contract has been subsequently terminated.

The Company is estimating a reduction in its future general and administrative expenditures as several of the contracts and professional fees that the Company had incurred have either been terminated or are not being renewed. In addition, the support of a Vancouver office has not been renewed and fees associated with ensuring all documentation for previous transactions have now been completed and filed.

Share based compensation

Share based compensation expense for the three months ended December 31, 2014 was $125,219 versus $83,961 for the comparative period in fiscal 2014. 1.7 million and 2.95 million options were granted in the years ended September 30, 2014 and 2013, respectively, which has resulted in a significant increase in share based compensation expense when compared to prior periods. Share based compensation of $2,304 was capitalized for the three months ended December 31, 2014 (December 31, 2013 – $18,563).

Depletion and depreciation ("DD&A")

DD&A for the three months ended December 31, 2014 and 2013 was $900,437 ($31.46/boe) and $15,056 ($10.85/boe), respectively. Production had just commenced during the comparative 2013 period. Depletion for the production from the five wells, along with associated costs, accounts for the increase to date.

Exploration expense ("E&E expense")

As a result of the decision to relinquish lands to lessen the continued delay penalties and allow certain leases in Block A to expire, the Company recognized E&E expense of $1.13 million for the three months ended December 31, 2014. E&E expense is composed of the following:

- High North elected in November 2014 to relinquish Block I and certain lands in Block A which represents approximately 1,792 hectares, resulting in the recognition of $1.1 million in exploration expense.
- High North elected to allow leases on approximately 192 hectares to expire which resulted in the recognition of approximately $22,000 in exploration expense.

Capital Expenditures ($)

Capital spending is summarized as follows:

	Three months ended December 31	
	2014	2013
Land and lease rentals	**38,261**	570,721
Seismic	**-**	59,008
Drilling and completion	**2,041,647**	4,294,503
Tangible equipment	**244,028**	129,124
Other assets	**755**	506
	2,324,691	5,053,862

Expenditures in the three months ended December 31, 2014 relate primarily to the drilling of the 08-09-76-21W5 well. In the first quarter ended December 31, 2013, High North completed the 09-02-76-21W5M and 16-02-76-21W5M wells in the Girouxville area and drilled the 09-26-75-21W5M well. This well was then completed during the second fiscal quarter ended March 31, 2014. The 08-21-75-21W5M well was drilled and completed in the third 2014 fiscal quarter and the 08-02-75-21W5M well was drilled in the same quarter. Total costs of $9.2 million associated with the first three wells drilled were transferred from exploration and evaluation assets to property and equipment. The fourth, fifth and six wells were directly capitalized to property and equipment.

Exploration and evaluation assets

Capital spending on exploration and evaluation assets has been allocated to cash generating units ("CGU's") as follows:

	Total
	$
Cost	
Balance as at September 30, 2014	4,179,553
Additions	27,298
Relinquished lands	(824,407)
Expired lands	(22,436)
Reclassification to property & equipment	(218,965)
Balance as at December 31, 2014	3,141,043

Due to the decline in land and commodity prices, the Company completed an impairment test and determined that no impairment existed.

Property and equipment

The continuity for property and equipment is as follows:

	Oil and natural gas assets	Corporate	Total
	$	$	$
Cost			
September 30, 2014	17,388,542	7,314	17,395,856
Additions	2,272,938	755	2,273,693
Reclassified from exploration and evaluation assets	218,965	–	218,965
Addition and change in estimate for decommissioning obligations	68,712	–	68,712
General and administrative costs	23,700	–	23,700
Share-based compensation	2,304	–	2,304
December 31, 2014	19,975,161	8,069	19,983,230
Accumulated depletion and depreciation			
September 30, 2014	(1,568,693)	(2,574)	(1,571,267)
Depletion and depreciation	(899,733)	(704)	(900,437)
Impairment	(4,044,771)	–	(4,044,771)
December 31, 2014	(6,513,197)	(3,278)	(6,516,475)
Carrying value			
December 31, 2014	13,461,964	4,791	13,466,755
September 30, 2014	15,819,849	4,740	15,824,589

Due to the declining commodity prices, the Company completed an impairment test as at December 31, 2014 and determined that an impairment of $4.0 million existed. The impairment is calculated as the difference between carrying value and fair value. Carrying value is cost less accumulated depletion and impairment losses. Value in use was based on a GLJ reserve report using discount rates of 10% on proved producing reserves, 12% on proved undeveloped reserves and 15% on probable reserves. The following price assumptions were used in the reserve report:

Year	Edmonton Light Cdn$/bbl
2015	64.71
2016	80.00
2017	85.71
2018	91.43
2019	97.14

Escalation rate thereafter – 2%

Liquidity and Capital Resources

The Company commenced fiscal 2015 with a working capital deficit of ($10,258,928). During the three months ended December 31, 2014, the Company spent $0.9 million on operating activities, $2.3 million on capital expenditures, and raised $2.0 million in new equity net of issue costs. The working capital deficit at December 31, 2014 was ($11,750,970).

In September 2014, the Company executed a commitment letter with a major chartered bank which grants the Company a demand operating facility of up to $10 million. The facility is initially capped at $6.0 million and became available for use in October 2014. Funds were drawn and repaid on the facility during the three months ended December 31, 2014 and as at the end of the quarter no funds had been advanced from the facility.

On December 30, 2014, the Company closed a private placement of approximately 12.9 million shares issued on a flow-through basis at $0.17 per share for approximately $2.2 million in gross proceeds.

The debentures issued pursuant to a private placement on April 4, 2014 mature in early April 2015 and the Company believes that it does not have the funds available to satisfy the terms of the debenture. Several options are under consideration.

In fiscal 2015, the Company intends to further consider the timing and approach for the next phase of capital expenditures. The ability of the Company to recover the amounts shown for the exploration and evaluation assets will be dependent upon the existence of economically recoverable reserves and upon the Company's ability to obtain applicable permits and additional financing to continue the development of the Company's properties and generate funds therefrom and to meet current and future obligations. Financial markets, economic conditions, and volatility in the debt and equity markets could likely continue to make it challenging to obtain cost effective funding.

SUMMARY OF QUARTERLY RESULTS FOR THE LAST CONSECUTIVE EIGHT QUARTERS

Historical quarterly financial information derived from the Company's eight most recently completed quarters is as follows:

	Quarters Ended			
	December 31, 2014	**September 30, 2014**	**June 30, 2014**	**March 31, 2014**
	$	$	$	$
Revenue ($)	1,698,945	1,910,177	2,073,313	1,960,751
Net and comprehensive loss ($)	(6,892,593)	(4,767,149)	(1,200,836)	(393,443)
Basic and diluted loss per common share ($)	(0.12)	(0.09)	(0.02)	(0.01)
Weighted average number of common shares	59,465,670	52,123,201	51,799,205	50,048,093
	December 31, 2013	**September 30, 2013**	**June 30, 2013**	**March 31, 2013**
	$	$	$	$
Revenue ($)	85,700	–	–	–
Net and comprehensive loss ($)	(494,688)	(451,228)	(324,898)	(182,340)
Basic and diluted loss per common share ($)	(0.01)	(0.01)	(0.02)	(0.02)
Weighted average number of common shares	43,880,091	31,362,899	14,238,929	9,825,589

The Company completed its qualifying transaction on the TSXV in February 2013 and purchased Valleyview in July 2013. Through the purchase of Valleyview, the Company became an indirect party to farmout agreements which required test wells to be drilled at certain dates. The Company has continued to issue units and common shares on a flow-through basis by private placement. The variations from quarter to quarter are a result of the Company completing its qualifying transaction, the commencement of production for three wells in the first and second quarters and two additional wells in the fourth quarter in fiscal 2014, increased professional fees with new management contracts, fees associated with pursuing new financing opportunities, increased share based compensation for new option grants, public company costs and reporting requirements, and exploration expense as a result of High North electing to reduce its land holdings.

DEBENTURES

Pursuant to a private placement the Company issued 8,670 12% convertible unsecured subordinated debentures ("**Debentures**") at a price of $1,000 per Debenture on April 4, 2014. The Debentures bear interest at a rate of 12% per annum calculated annually, and not in advance, and payable semi-annually on October 3, 2014 and April 4, 2015. Each Debenture is convertible at the holder's option into common shares of the Company at any time after the issuance of the Debentures and prior to 4:30 p.m. (Eastern time) on April 4, 2015, at the conversion price of $0.85 per common share, subject to customary anti-dilution adjustments in the event of stock consolidation, stock splits, stock dividends and other such events. The full text of the Debenture Indenture is available under High North's profile on SEDAR at www.sedar.com. The semi-annual interest in the amount of $520,200 was paid on October 3, 2014 to all debenture holders. Several options are under consideration to satisfy the terms of the debenture.

SHARE CAPITAL

Common shares

The Company commenced fiscal 2015 with 59,184,906 common shares outstanding. During the three months ended December 31, 2014, 12,915,146 shares were issued as a result of new issuance from a private placement resulting in a total of 72,100,052 common shares outstanding as at December 31, 2014.,

Common shares were reserved for future issuance for the following instruments:

	December 31, 2014	September 30, 2014
Options	3,465,000	3,465,000
Warrants	11,457,092	11,457,092
	14,922,092	14,922,092

Subsequent to December 31, 2014, there was no change in common shares resulting in 72,100,052 outstanding as at the date of this MD&A.

Escrowed Shares

As at December 31, 2014, the Company has 6,499,400 common shares issued which are held in escrow and will be released to shareholders in accordance with TSXV Policy 2.4 - Capital Pool Companies over a remaining period of a number of months.

Stock Options

The following is a continuity of the stock options outstanding:

	Number of options	**Weighted average exercise price**
Outstanding at December 31, 2014 and September 30, 2014	3,465,000	$ 0.39

The following summarizes information about the options outstanding as at December 31, 2014:

Exercise Price	**Number of options outstanding**	**Weighted average remaining contractual life (years)**	**Number of options exercisable**	**Weighted average exercise price**
$0.10	200,000	1.65	200,000	$0.10
$0.155	150,000	3.16	150,000	$0.155
$0.35	2,015,000	3.80	1,361,250	$0.35
$0.56	1,100,000	4.44	275,000	$0.56
	3,465,000	3.85	1,986,250	$0.34

As at December 31, 2014, 2,500,000 of the options outstanding are held by key management personnel (September 30, 2014 – 3,050,000).

Subsequent to December 31, 2014, there were 2,275,000 options issued resulting in 5,740,000 options outstanding as at the date of this MD&A.

Warrants

The following is a continuity of the warrants outstanding:

	Number of warrants	Amount	Weighted average exercise price
Outstanding and exercisable at December 31, 2014 and September 30, 2014	11,457,092	$ 1,686,316	$ 0.46

The following summarizes information about the warrants outstanding as at December 31, 2014:

Exercise Price	Number of Warrants outstanding & exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price
$0.15	920,000	3.11	$0.15
$0.155	250,000	0.19	$0.155
$0.50	10,287,092	0.75	$0.50
	11,457,092	0.93	$0.46

Subsequent to December 31, 2014, there was no change in warrants resulting in 11,457,092 warrants outstanding as at the date of this MD&A.

OFF-BALANCE SHEET TRANSACTIONS

The Company does not have any off-balance sheet arrangements as at December 31, 2014 or as of the date of this MD&A.

RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) The Company incurred management fees of $20,000 (December 31, 2013 - $30,000) to a former director and Chief Financial Officer of the Company in accordance with a management agreement dated December 1, 2013 whereby compensation is payable at $10,000 per month for a term of one year. As at December 31, 2014, the Company had a balance owing to this company in the amount of $nil (September 30, 2014 – $14,805).

b) The Company incurred management fees of $nil (December 31, 2013 - $9,000) to a former director and officer of the Company in accordance with a management agreement dated December 1, 2013 whereby compensation was payable at $3,000 per month for a term of six months which ended on May 31, 2014. As at December 31, 2014 and September 30, 2014, the Company had a balance owing to this director and officer in the amount of $nil.

c) The Company incurred management fees of $36,129 (December 31, 2014 - $42,000) to a company controlled by a previous director and president of the Company in accordance with a management agreement dated May 1, 2013 whereby the related company is entitled to compensation of $14,000 per month for a term of two years. In accordance with the agreement, the Company advanced in May 2013 to the related company, $84,000 being one-half the first year's management fees. As at December 31, 2014, the Company had a balance owing to the related company in the amount of $nil (September 30, 2014 - $14,700). In addition, this company was paid $71,250 (December 31, 2013 - $nil) in delay drilling penalties and $27,403 royalties of which $206,250 is outstanding as at December 31, 2014 (September 30, 2014 - $146,672),

d) The Company incurred management fees of $36,000 (December 31, 2013 - $36,000) to a company controlled by a director of the Company in accordance with a management agreement dated May 1, 2013 whereby the related company is entitled to compensation of $12,000 per month for a term of two years. In accordance with the agreement, the Company advanced in May 2013 to the related company, $72,000 being one-half the first year's management fees. As at (December 31, 2014, the Company had a balance owing to the related company in the amount of $12,600 (September 30, 2014 - $12,600).

e) The Company paid rent of $nil (December 31, 2013 - $16,500) and office expenses of $nil ((December 31, 2013 - $6,000) which is included in general and administrative expense, to a company with common directors.

f) The Company incurred legal fees of $241,691 (December 31, 2013 - $19,072) to a law firm with a partner who is also a director of the Company. As at December 31, 2014, the Company had a balance owing to the law firm in the amount of $255,303 (September 30, 2014 - $471,770).

g) The Company incurred management fees of $30,173 (December 31, 2013 - $29,680) to a company controlled by the Chief Financial Officer. As at December 31, 2014, the Company had a balance owing to this related company in the amount of $27,836 (September 30, 2014 – $30,612).

All transactions were recorded at the exchange amount which is the amount agreed to amongst the related parties.

RISKS & UNCERTAINTIES

The business and operations of the Company are subject to numerous risks, many of which are beyond the Company's control. The Company considers the risks set out below to be some of the most significant to current and potential investors in the Company, but readers are cautioned that the list is not exhaustive. If any of these risks materialize into actual events or circumstances, or any other additional risks or uncertainties which are material to the Company's business actually occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), and business and business prospects are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline and investors may lose all or part of their investment.

The Company is engaged in the acquisition, exploration and development of oil and gas properties. Given the nature of the oil and gas business, the limited extent of the Company's assets and the present stage of exploration, the following risks, among others, should be considered.

Exploration, Development and Operating Risks

Oil and gas exploration and development is highly speculative in nature and involves a high degree of risk. There is no assurance that expenditures made on future exploration and development by the Company will result in new discoveries of oil and gas in commercial quantities. The recovery of expenditures on oil and gas properties and the related deferred exploration expenditures are dependent on the ability of the Company to obtain financing necessary to complete the exploration and development of its projects, and upon future profitable production, or alternatively, on the sufficiency of proceeds from disposition. The long-term commercial success of the Company depends on its ability to acquire, develop and commercially produce oil and gas reserves. The Company is in the process of exploring its properties and determining the technical feasibility and economically recoverable reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Additionally, if such acquisitions and participation are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisition or participation uneconomic.

Even if the Company is successful in locating satisfactory properties, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. The Company attempts to control operating risks by maintaining a disciplined approach to execution of its exploration and development programs. Exploration risks are managed by utilizing management experience and expertise along with technical professionals and by concentrating on the exploration activity on specific core regions that have multi-zone potential. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner.

Additionally, oil and gas operations are subject to the usual risks involved in the acquisition, exploration, development and production of oil and gas properties, including whether any of the remaining projects contain economically recoverable reserves and are able to generate any revenues from production.

Fluctuating Oil and Gas Prices

The economics of oil and gas exploration are affected by many factors beyond the Company's control, including commodity prices, supply and demand in the market and the cost of operations. Depending on the price of commodities, the Company may determine that it is impractical to continue exploration. Any material decline in prices may result in the reduction of existing and potential profitable exploration and development activities as well as reducing the financing options available to the Company. Prices are prone to fluctuations and marketability is affected by government regulations relating to price, royalties and allowable production, the effect of which cannot be accurately predicted. There is no assurance that a profitable market will exist for the sale of any commodities found on the properties.

Regulatory, Permit and License Requirements

The current or future operations of the Company require permits from various governmental authorities, and such operations are and will be governed by laws and regulations concerning exploration, development, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, site safety and other matters. Companies engaged in the exploration and development of oil and gas properties generally experience increased costs and delays in development and other schedules as a result of the need to comply with applicable laws, regulations and permits. Adverse changes to laws and regulations could have a material adverse effect on present and future exploration and development projects, operations, and capital expenditures. There can be no assurance that all permits which the Company may require for facilities and to conduct exploration and development operations on the properties will be obtainable on reasonable terms, or that such laws and regulations will not have an adverse effect on any exploration or development project which the Company might undertake.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in exploration and development operations may be required to compensate those suffering loss or damage by reason of the exploration and development activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of oil and gas companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or exploration and development costs, or require abandonment or delays in the development of new or existing properties.

Financing Risks and Dilution to Shareholders

The Company has limited financial resources and production has recently commenced on three wells. If the Company's exploration programs on its projects are successful, additional funds will be required for further exploration and development. There can be no assurance that the Company will be successful in its efforts to obtain adequate financing in the future or that such financing will be available on favourable terms or at all. It is likely such additional capital will be raised through the issuance of additional equity which will result in dilution to the Company's shareholders.

Competition

The oil and gas exploration and development industry is highly competitive. The Company will have to compete with other companies, many of which have greater financial, technical and other resources than the Company, for, among other things, the acquisition of leases and other interests as well as for the recruitment and retention of qualified employees and other personnel. Failure to compete successfully against other companies could have a material adverse effect on the Company and its prospects.

Reliance on Management and Dependence on Key Personnel

The success of the Company will be largely dependent upon the performance of its directors and officers and on the Company's ability to attract and retain key personnel. The loss of the services of these persons may have a material adverse effect on the Company's business and prospects. The Company will compete with numerous other companies for the recruitment and retention of qualified employees and contractors. There is no assurance that the Company can maintain the service of its directors and officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Environmental Risks

The Company's exploration and appraisal programs will, in general, be subject to approval by regulatory bodies. Additionally, all phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

Availability of Equipment and Labour

The oil and gas exploration industry is dependent on the availability of equipment and labour in the areas where such activities will be conducted. Demand for limited equipment and labour and restrictions imposed on access to equipment may affect the availability of such equipment to the Company which could delay exploration, development and production activities.

Local Resident Concerns

In addition to ordinary environmental issues, the exploration and development of the Company's projects could be subject to resistance from local residents that could either prevent or delay exploration and development of its properties.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of this Company may be subject to in connection with the Company's operations. Certain of the directors and officers of the Company are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers may be in direct conflict with the Company. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA and any other applicable corporate laws.

Uninsurable Risks

Exploration, development and production operations of oil and gas reserves involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts, cave-ins, fires, floods, earthquakes and other environmental occurrences, any of which could result in damage to, or destruction of, wells and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although the Company intends to take precautions to minimize risk that will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks, such as environmental risks, as a result of high premiums or other reasons. Should such liabilities arise, they could have an adverse impact on the Company's f operations and financial condition and could cause a decline in the value of the Company's shares.

Litigation

The Company and/or its directors may be subject to a variety of civil or other legal proceedings, with or without merit.

CRITICAL JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions, and to use judgment that affects the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Judgment

Exploration and evaluation assets

In determining the amount of exploration and evaluation assets to recognize, the Company uses judgment to assess the likelihood that a future economic benefit exists where the determination of technical feasibility and commercial viability occurs over a longer term project. The Company considers the results from drilling test wells, seismic, and, when appropriate, resource assessments by a third party reserve engineer.

Cash generating units

A cash generating unit ("CGU") is defined as the smallest group of assets that generate cash inflows from continuing use that largely are independent of the cash inflows of other assets or groups thereof. The Company allocates costs to a CGU based on geographic location, shared infrastructure, and common geological and geophysical characteristics.

Estimates

Although these estimates are based on management's reasonable knowledge of the amount, event or action, actual results ultimately may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any change in estimate is recorded in the reporting period in which the estimate is revised. The critical accounting judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Exploration and evaluation assets

The carrying value of exploration and evaluation assets is reviewed for impairment where there has been a trigger event (that is, an event which may have resulted in impairment) by assessing the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use which is determined by the present value of future cash flows. The calculation of estimated future cash flows would be based on estimates of gross reserves, production rates, oil and gas prices, future costs, discount rates, and other relevant assumptions for developed properties and the fair value for undeveloped land based on value per hectare from current land sales. These values are, therefore, subjective.

Property and equipment and depletion and depreciation

Estimated useful lives and residual values of tangible equipment are reviewed annually. Estimated reserve lives and the value of the reserves are reviewed each reporting period. Reserve estimates are dependent on numerous variables. Changes in these variables could have a significant impact on the test for impairment and the calculation of depletion. The carrying values of property and equipment are reviewed for impairment where there has been a trigger event (that is, an event which may have resulted in impairment) by assessing the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use which is determined by the present value of future cash flows. The calculation of estimated future cash flows is based on estimates of gross reserves, production rates, oil and gas prices, future costs, discount rates, and other relevant assumptions and is, therefore, subjective.

Decommissioning obligation

In accounting for the decommissioning obligation, the Company makes assumptions regarding the timing and the amount of reclamation and abandonment expenditures, inflation and discount rates, and possible changes in the legal and regulatory environment. This estimate is reviewed each reporting period.

Share based compensation

In accounting for the fair value of stock options and warrants, the Company makes assumptions regarding share price volatility, risk free rates, forfeiture rates, and the expected life in order to determine the amount of associated expense to recognize.

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized earnings in the period in which the change occurs.

Future accounting pronouncements

IFRS 9 *Financial Instruments* was originally issued in November 2009 then amended in October 2010 and in 2013. IFRS 9 is being released in three phases: 1) Accounting for financial assets and liabilities; 2) Impairment of financial assets; and 3) Hedge accounting. The first phase was released in November 2009 reducing the number of categories and measurement options for financial assets. Entities are required to select the measurement method based on both the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. Requirements for financial liabilities were released in October 2010. The amendments in 2013 include the temporary removal of the mandatory effective date for years beginning January 1, 2015 and the release of the third phase on hedge accounting. The effective date has been updated to for years beginning January 1, 2018. Hedge accounting remains optional. The new guidance is intended to improve the disclosure on risk management and provide more options of when to apply hedge accounting.

IFRS 11 *Joint Arrangements* was amended in May 2014 to include guidance on how to account for an acquisition of a joint interest that is constitutes a business under IFRS 3 *Business combinations*. This amendment is effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

IFRS 15 *Revenue,* which was issued in May 2014, replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and other revenue related interpretations. This standard requires revenue recognition upon the transfer of goods or services when control is transferred to the purchaser and additional disclosure. This standard is effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments include cash, short term investment, trade and other receivables, and trade and other payables. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity.

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The fair value of cash and short term investments are considered level 1 as it is determined by investments held at financial institutions.

The Board of Directors of High North has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies. The risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The risk management policies are regularly reviewed by the Board and updated to reflect changes in market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its financial instruments.

OUTLOOK

To date, the Company has drilled and completed five Montney horizontal oil wells, all of which are successful. The sixth well has been drilled and is currently being completed with preliminary results being encouraging. Restricted production on the wells has stabilized and averages approximately 300 bbls/d. The Company has been granted approval until August 2015 to flare the associated gas production. The Company is currently pursuing alternate gas conservation facilities.

Gross proceeds of $2.2 million were raised from a private placement of shares issued on a flow-through basis in December 2014. These funds, in addition to the flow-through issuance in September 2014, are being utilized to drill and complete this sixth well with the balance to be applied to future exploratory expenditures.

The Company has access to a loan facility initially capped at $6.0 million incurring interest at the bank's prime rate plus 2%.

The reduced land base not only reduces the fees to the farmors, but continues to provide the Company with a surplus of locations to extend the Montney oil pool boundary and increase its inventory of horizontal drills required to maximize efficient recovery.

The debentures mature early in April 2015 and the Company is actively pursuing alternatives to resolve the financial instrument.

With the Company entering its second fiscal year of drilling activity and generation of revenues, it continues to pursue avenues that will provide it with the opportunity to develop its existing undeveloped land and increase value to its shareholders.