HIGH ARCTIC ENERGY SERVICES INC.

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED
DECEMBER 31, 2016

March 21, 2017

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FORWARD-LOOKING INFORMATION AND STATEMENTS

This annual information form ("AIF") 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, as they relate to High Arctic Energy Services Inc. (the "Corporation", or "High Arctic"), 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 AIF. 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 AIF as intended, planned, anticipated, believed, estimated or expected.

Specific forward-looking statements in this AIF 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 2017 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; and
- future discussions with its customer regarding long-term extensions for drilling and related services contracts for Rigs 103 and 104.

These statements involve known and unknown risks, uncertainties and other factors facing the Corporation. Risks, uncertainties and other factors may be beyond the Corporation's control and may cause actual results, or events to differ materially from those anticipated in such forward-looking statements The Corporation believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this AIF should not be unduly relied upon by investors. These statements speak only as of the date of this AIF and are expressly qualified, in their entirety, by this cautionary statement.

With respect to forward-looking statements contained in this AIF, the Corporation has made assumptions regarding, among other things, its ability to:

- maintain its ongoing relationship with major customers;
- 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 below and elsewhere in this AIF:

- liquidity risks, which may be exacerbated if the Corporation is unable to maintain or raise financing on terms acceptable to the Corporation or at all;
- reduction in industry activity levels due to such factors as lower oil and natural gas prices and the ability of customers to raise capital for exploration and development;

- credit risks associated with customers in the oil and natural gas industry, including the inability of customers of the Corporation to pay for goods and services that have been provided;
- changes in legislation and the regulatory environment, including uncertainties with respect to royalty regimes and environmental initiatives;
- income tax matters including unanticipated tax and other expenses and liabilities of the Corporation in foreign jurisdictions;
- the worldwide demand for oilfield services in connection with the drilling, workover and completion of oil and natural gas wells;
- volatilities in global supply and demand and market prices for oil and natural gas and the effect of these volatilities on the demand for oilfield services generally;
- general economic conditions in Canada, the United States, Southeast Asia and elsewhere, including variations in exchange rates and interest rates;
- regional and international competition;
- risks inherent in foreign operations, including political and economic risk;
- liabilities and risks inherent in oil and natural gas operations, including environmental liabilities and risks;
- sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities, and skilled personnel;
- continuing success in developing and integrating technological advances and the ability to match advances of competitors;
- uncertainties in weather affecting the duration of the service periods and the activities that can be completed;
- the cancellation of industry-standard type contract arrangements used by the Corporation including written contracts, which are cancellable by customers at any time, and verbal agreements;
- price risks resulting in fluctuations in market prices for short term investments;
- stock market volatility and market valuations; and
- the other factors considered under "Risk Factors" in the AIF which is incorporated by reference herein, and other filings with Canadian securities authorities.

Although management of the Corporation has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended.

Forward-looking statements contained herein are made as of the date of the AIF and the Corporation disclaims any obligation, to update any forward-looking statements if circumstances or management's beliefs, expectations or opinions should change, whether as a result of new information, future events or otherwise, unless required by applicable securities law.

GLOSSARY OF TERMS

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, including the regulations promulgated thereunder;

"**AIF**" means this annual information form;

"**By-laws**" means the by-laws of High Arctic dated December 31, 2010;

"**Common Shares**" means the common shares of High Arctic;

"**Corporation**" or "**High Arctic**" means High Arctic Energy Services Inc., together with its divisions and subsidiaries and its predecessor entities;

"**Credit Facility**" means the credit agreement between the Corporation and HSBC Bank Canada;

"**Cryogenic Liquid Nitrogen Pumping Services**" means the process of transporting, storing and pumping liquid nitrogen for use in the drilling, completion and workovers of oil and natural gas wells;

"**Hydraulic Workover Rig**" or "**HWR**" means a workover rig that moves the tubulars using hydraulic power while performing a workover;

"**IFRS**" means International Financial Reporting Standards;

"**N_2**" means nitrogen;

"**Papua New Guinea**" **or** "**PNG**" means the country of Papua New Guinea;

"**Preferred Shares**" means preferred shares in the capital of the Corporation issuable in series of which none have been issued;

"**Rig Assist**" means a Snubbing unit that performs Snubbing services with the assistance of a service rig;

"**Share Incentive Plan**" means the executive and director share incentive plan approved by the Shareholders on June 29, 2010;

"**Shareholder**" means a holder of Common Shares;

"**Snubbing**" is the act of mechanically overcoming forces exerted from pressurized wellbores when moving tubing and drill pipe into and out of that wellbore, a scenario often created after the well has had multiple fracturing operations performed on it;

"**Stand Alone Snubbing System®**" means High Arctic's snubbing units designed to assist in the completion of wells without the aid of a service rig;

"**Stock Option Plan**" means the stock option plan of the Corporation approved by the Shareholders on June 28, 2007, as amended on May 13, 2014;

"**TSX**" means the Toronto Stock Exchange;

"**well**" means a hole drilled into the ground to extract petroleum, natural gas and associated liquids; and

"**Well Servicing**" is the utilization of a service rig to perform workover services including, maintenance and completions services on a well.

Unless otherwise indicated, references herein to "$" or "dollars" are to Canadian dollars.

CORPORATE STRUCTURE

General

High Arctic is incorporated under the ABCA and commenced operations on June 29, 2007 as a successor of High Arctic Energy Services Trust. The Corporation amended its articles of incorporation to consolidate its outstanding Common Shares on a five for one basis on June 14, 2011.

The head office of the Corporation is at Suite 500, 700 2nd Street SW, Calgary, Alberta T2P 2W1 and the registered office of the Corporation is at Suite 1000 – 250 2nd Street SW Calgary, Alberta, Canada, T2P 0C1. The Corporation's telephone number is (403) 508-7836, the facsimile number is (403) 262-5176 and the website is ***www.haes.ca***.

The Corporation is a reporting issuer in Alberta, British Columbia, Saskatchewan, Manitoba and Ontario. The Common Shares of High Arctic are listed on the TSX under the trading symbol "HWO".

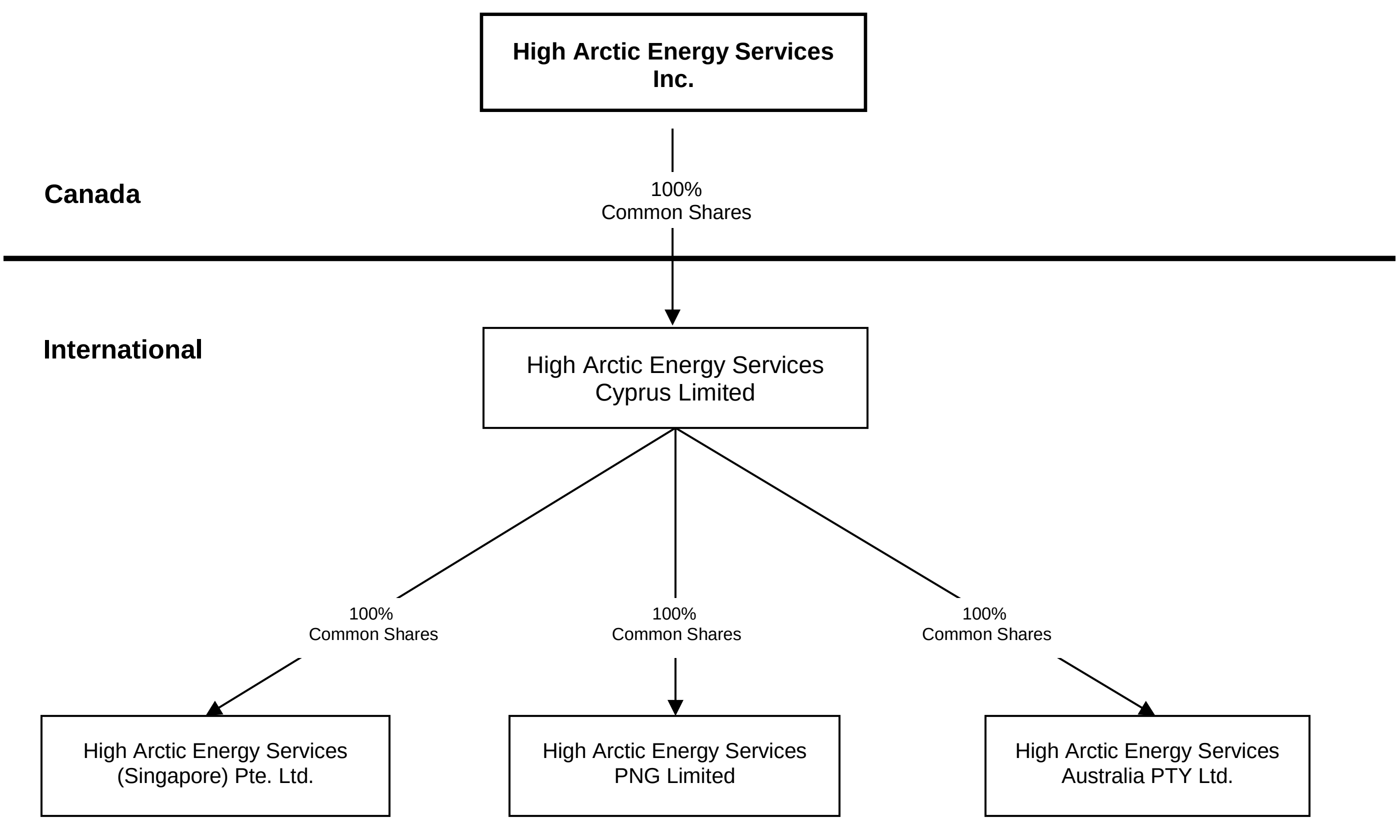
Inter-corporate Relationships

As at the date hereof, the subsidiaries of the Corporation actively carrying out business activities are set forth below:

Entity	Percentage of Voting Securities controlled (directly or indirectly) by High Arctic	Physical Location	Jurisdiction of Incorporation or Formation
High Arctic Energy Services Cyprus Limited	100%	Nicosia, Cyprus	Cyprus
High Arctic Energy Services (Singapore) Pte. Ltd.	100%	Singapore	Singapore
High Arctic Energy Services PNG Limited	100%	Port Moresby, Papua New Guinea	Papua New Guinea
High Arctic Energy Services Australia PTY Ltd.	100%	Brisbane, Australia	Australia

Organization Structure of the Corporation

The following diagram sets out the relationship among the Corporation and its active subsidiaries:



GENERAL DEVELOPMENT OF THE BUSINESS AND THREE YEAR HISTORY

High Arctic is an oilfield services company currently operating in PNG and Western Canada. In PNG, the product line consists of drilling services, workover services and equipment rental including rig mats, cranes and oilfield related equipment. In Canada, the product line consists primarily of Well Servicing and Snubbing services, the supply of Cryogenic Liquid Nitrogen Pumping Services and equipment rentals. A description of each of High Arctic's services can be found below under "*Description of the Business".*

Three-Year History

The following is a summary of the significant events in the development of High Arctic's business over the last three completed financial years.

2014

During 2014 High Arctic commenced an expansion of its PNG operations. On April 9, 2014, the Corporation announced that it had signed a new Drilling Services Agreement with a customer for one heli-portable drilling rig in PNG. Under this contract, High Arctic agreed to provide one drilling rig and a 100-person camp for a firm contract term of two years with an extension option available for one additional year. The two-year term commenced once the rig had been mobilized and was ready to commence drilling operations on its first well location.

In conjunction with the award of this contract, High Arctic agreed to purchase two heli-portable drilling rigs (Rig 115 and Rig 116 – the "Rigs") and associated ancillary equipment at a cost of US$29.0 million (the "Acquisition"). The matching Rigs are AC self-erecting 1500 HP triple drilling rigs designed and manufactured as heli-portable. The Rigs can be broken down into 2700kg loads allowing maximum transportation versatility and flexible alternatives in helicopter selection. Constructed in 2010, the Rigs feature the latest safety designs and drilling automation technology, and each had approximately one year of use prior to acquisition.

To fund the Acquisition, the Corporation increased its Credit Facility to a $40.0 million revolving loan and a $5.0 million revolving operating loan. In addition, on June 11, 2014, the Corporation completed a bought-deal short form prospectus offering of 5,051,000 subscription receipts (the "Subscription Receipts") at a price of $4.95 per Subscription Receipt for aggregate gross proceeds of approximately $25.0 million (the "Offering"). Each Subscription Receipt was exchangeable into one Common Share upon completion of the Acquisition of the Rigs, which occurred on July 28, 2014. FBC Holdings Sàrl, an insider of the Corporation, purchased 1,516,000 of the Common Shares issued, bringing its holdings to approximately 39% of the issued and outstanding Common Shares in the Corporation.

The Rigs were shipped to Houston, Texas and Rig 115 commenced upgrading in August, 2014.

On December 1, 2014, High Arctic announced it had signed a second Drilling Services Agreement with its customer for Rig 116, along with a 100 person camp, for a firm contract term of two years which, similar to Rig 115, commences once the rig has mobilized and is ready to commence drilling operations at its first drilling location in PNG. The upgrading of Rig 116 commenced in Houston in December, 2014.

For the year ended December 31, 2014, total capital expenditures of $55.7 million were incurred, of which, $49.3 million related to the Acquisition and upgrade work on the Rigs. The remaining $6.4 million in capital expenditures were incurred for the Corporation's Canadian operations.

As a result of increased activity and profits combined with the growth of the organization, High Arctic increased its monthly dividend to $0.015 per share in March, 2014 and increased it further to $0.0165 per share in November, 2014.

2015

The upgrading of Rig 115 was completed in early January, 2015 and the rig was shipped to PNG where it arrived in March, 2015. Rig 115 earned standby with crew rates until its first well was spudded in June, 2015 upon which time full drilling rates commenced. Upon spudding of its first well, the two-year period defining the end of the contract for the rig commenced.

The upgrading of Rig 116 was completed in June, 2015 and the rig was shipped to PNG where it arrived in August, 2015 and under instruction from the customer the rig was transported to a nearby location and placed on standby until further notice. The rig continues to earn standby without crew rates until it spuds it first well at which time the two-year period defining the end of the contract term will commence.

In January, 2015, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 5 percent of the Corporation's issued and outstanding common shares under a Normal Course Issuer Bid ("the 2015 Bid"). The 2015 Bid commenced on January 12, 2015 and was valid for one year. A total of 1,569,983 common shares had been purchased and cancelled pursuant to the 2015 Bid at a total cost of $5.7 million.

For the year ended December 31, 2015, total capital expenditures of $40.0 million were incurred. The costs to transport the Rigs to PNG, the upgrading of Rig 116, the acquisition of rolling stock and the construction of a rig camp accounted for approximately $36.9 million. In Canada, total expenditures of $3.1 million included final costs on a 170K Snubbing unit and re-certifications of existing equipment.

2016

In January 2016, High Arctic received approval from the Toronto Stock Exchange for renewal of the 2015 Normal Course Issuer Bid, which expired at the beginning of 2016. The renewal commenced on January 12, 2016 and was valid for one year ("the 2016 Bid"). As of December 31, 2016, 1,845,800 common shares had been purchased and cancelled pursuant to the 2016 Bid at a total cost of $6.3 million, excluding the 65,600 common shares purchased at the beginning of 2016 under the 2015 Bid.

The Corporation's three-year drilling and related services contracts for Rigs 103 and 104 expired in June 2016. Interim extensions until January 31, 2017, were entered into with the customer to allow for additional time for the Corporation and its customer to continue negotiations on new long-term contract extensions.

On August 31, 2016, the Corporation acquired all of the operating assets and business operations of Tervita Corporation's Production Services Division for an aggregate purchase price of $42.8 million (see "Significant Acquisitions" below for further details). This acquisition added Well Servicing and additional rental services to High Arctic's Canadian operations, providing further growth and diversification to the Corporation's business operations.

Recent Developments

Upon expiry of the interim contract extensions for Rigs 103 and 104, the Corporation entered into additional interim extensions for these contracts until July 31, 2017. Discussions continue with the customer on long-term extensions for these contracts.

Significant Acquisitions

On August 31, 2016, the Corporation acquired the operating assets and business operations of Tervita Corporation's Production Services Division for an aggregate purchase price of $42.8 million. Through the transaction, the Corporation added a fleet of 85 service rigs and related support equipment, a surface equipment rentals division and an engineering services division which provides solutions to assist in the management of abandonment and compliance programs. In addition, the transaction provided the Corporation with seven new operational bases located in key basins in Alberta, five of which are owned.

A Form 51-102F4 Business Acquisition Report ("BAR") was filed in November 2016 in accordance with Part 8 of National Instrument 51-102 – *Continuous Disclosure Obligations.*

DESCRIPTION OF THE BUSINESS

High Arctic provides oilfield services to exploration and production companies operating in Canada and PNG. As a result of the expansion of the Corporation's service offering following the Tervita Production Services acquisition, High Arctic has organized its business into three business segments: Drilling Services; Production Services; and Ancillary Services.

Revenue

	Year ended 31 December 2016		Year ended 31 December 2015	
	Revenue (millions)	**% of Total Revenue**	**Revenue (millions)**	**% of Total Revenue**
Drilling Services	$144.6	70%	$151.8	72%
Production Services	$34.1	16%	$22.5	11%
Ancillary Services	$30.7	15%	$35.6	17%
Inter-Segment Elimination	($1.4)	(1%)	-	-
Total	**$208.0**	**100%**	**$209.9**	**100%**

Drilling Services

The Drilling segment consists of High Arctic's drilling services in PNG where the Corporation has operated since 2007. High Arctic currently operates the largest fleet of tier-1 heli-portable drilling rigs in PNG, with two owned rigs (Rigs 115 and 116) and two rigs (Rigs 103 and 104) managed under operating and maintenance contracts for one of the Corporation's customers.

There are significant oil and natural gas reserves in PNG and the country has become a key energy exporter to the Asian LNG markets. A major step towards this goal was the completion in 2014 of a liquefied natural gas project ("PNG LNG"). Both primary participants in the project are customers of High Arctic. The project provides both liquefaction and storage facilities with a name plate capacity of 6.9 million tonnes per annum (mtpa) to Asian LNG consumers through long term agreements. Other LNG projects are also being considered by other operators within PNG.

Drilling Rig Fleet

The two owned heli-portable rigs, 115 and 116, were acquired in 2014 and became available for use in 2015 upon the completion of certain customer requested upgrades necessary to meet PNG's high international drilling standards. Each rig is a 1500 horsepower, AC electric, self-erecting rig that is designed to be broken down into 2700kg loads to allow for helicopter transport to areas with remote or limited access.

Rigs 103 and 104 are owned by one of High Arctic's customers. These rigs have been operated and managed by High Arctic on behalf of its customer since 2007 under successive three-year contract terms. Rigs 103 and 104 are also heli-portable 1500 horsepower, AC electric rigs.

Supporting Rigs 103 and 104 are two partial rig packages which are referred to as "Leapfrog" Rigs 103 and 104. These Leapfrog Rigs consist of a center rig section which is identical to the center rig section utilized in the complete Rig 103 and 104 rig packages. Where appropriate, these Leapfrog Rigs are utilized to advance the setup time at the next drilling location while drilling is completed by the main rig 103 or 104 at its existing location. While drilling operations are ongoing at the existing location, the Leapfrog Rig is setup at the new location. Upon completion of drilling at the existing location, the remaining drilling rig components are mobilized to the new location which already has the center section of the Leapfrog Rig setup.

Rig camps are also provided as part of the rig packages for the rigs.

Contracts

Drilling Services are generally conducted under a daily rate contract where the Corporation charges a fixed rate per day depending on the activity being conducted. Such contracts generally have an operating rate while the equipment is operating and a reduced rate for other periods such as when the equipment is on standby waiting for orders or is moving between well locations.

The two rigs owned by the Corporation, Rigs 115 and 116, are both operating under separate take-or-pay contracts that commence upon the clearance of PNG customs and expire twenty-four months after the spud date of the first well utilizing each rig. Rig 115 spud its first well in June, 2015 and as such, its two-year contract term ends in June, 2017. Rig 116 has not spud its first well yet and is currently on standby. Its two-year period defining the end of the contract term will commence once it spuds its first well.

Under the Corporation's operations and management contracts for Rigs 103 and 104 High Arctic provides drilling services to the Corporation's customer as well as other customers operating in PNG, for which the Corporation receives a daily drilling services rate. As compensation for the use of the rigs, the Corporation pays the customer a daily rig lease rate for the days the rig is utilized. Unlike the contracts for Rigs 115 and 116, the contracts for Rigs 103 and 104 are not take-or-pay and revenue is generated based on level of activity and services performed.

Each contract referred to above is negotiated between the parties but standardized terms and conditions have been developed with the customer over time. The main terms and conditions of each drilling contract are generally in line with the model IADC contract ("International Association of Drilling Contractors") as modified to reflect the conditions in PNG and include considerable detail related to the equipment and services provided by each party, standards of performance, indemnities for loss and risks and the applicable day rates, as well as containing standard terms and conditions commonly found in international oilfield services contracts.

A significant factor in determining the financial performance resulting under each contract is the level of activity at full operating rate as compared to lower rates that apply while waiting on orders or while services are suspended with or without crews. The drilling program details such as the number, type and location of wells is not specified under the contract as the customer retains control and discretion over the activity. The Corporation is at risk for mechanical or other breakdown of the drilling rig or other equipment and goes on "zero rate" after a short grace period. The remote location of the operations can have a significant impact on the time required to complete a repair. The Corporation manages the risk by maintaining an extensive inventory of spare parts in the field and by having experienced technical personnel on site and in its field support bases.

Each contract has certain termination rights that can be invoked for failure to perform in accordance with the contract.

In aggregate, the total of the contracts for the heli-portable drilling rigs operated in PNG accounted for approximately 70% of the Corporation's revenue in 2016 (2015 – 72%). As such, the loss of these contracts would have a materially negative impact on financial results of the Corporation. The operations and management contracts for Rigs 103 and 104 expire on July 31, 2017. The Corporation remains in discussions with the customer over long-term contract renewals for these contracts. The two-year contract term for Rig 115 expires in June 2017. Discussions have not commenced with the customer regarding potential extensions on this contract. Rig 116 remains under contract with its two-year period defining the end of the contract term commencing once it spuds its first well.

High Arctic attempts to mitigate the risk of loss of these contracts through its operational performance and experience operating in PNG's challenging operational environment. A high level of operational integration also exists between the Corporation and its primary customer with respect to drilling activity.

Competition

The majority of wells drilled in PNG are currently completed with a heli-portable drilling rig. This is due to the remote nature of drilling activities in PNG and the lack of suitable road infrastructure required to move traditional land based drilling rigs. Due to High Arctic's long-term experience and operational performance in PNG the Corporation is currently the only active operator of heli-portable drilling rigs in PNG. Wells in PNG are expensive to drill by world standards which can limit the amount of drilling activity. As a result, there are relatively few active operators drilling wells at any particular time. To the Corporation's knowledge, there are five other heli-portable drilling rigs in PNG, two of which are substantially older rigs but of similar size to the Corporation's with the remaining three being older smaller rigs not suitable for drilling operations similar to those completed by the Corporation.

In addition to local competitors in PNG, the Corporation may also compete with other drilling contractors that operate heli-portable drilling rigs in the global oilfield services market. Due to the specialized nature of heli-portable drilling rigs, the size of the global heli-portable drilling rig fleet capable of drilling for oil and gas in PNG is limited. These rigs are generally operated by large multinational oilfield service companies who may have greater financial resources and operating assets than the Corporation. The majority of these rigs are located and operated in South America and would require significant investment to relocate to PNG.

Certain areas with sufficient road infrastructure may be developed to support a traditional land based rig. To the Corporation's knowledge, there is currently two land based rigs located in PNG capable of drilling wells typically completed in PNG. Due to higher mobilization costs associated with heli-portable drilling operations, the Corporation's heli-portable rigs are typically utilized for remote access operations and as such do not compete in areas where traditional land based rigs are more cost effective to utilize.

The Corporation has established a position as a leading drilling contractor operating at high international standards in PNG. High Arctic has had a long-term relationship with one of the country's most active operators and has also established relationships with the country's other main operators.

The success and activity of the Corporation in PNG is dependent on its continued operational performance as well as the continued exploration and development plans of its customers. The Corporation's two largest customers in PNG are the most active operators in PNG, and PNG is the core part of their business activities.

Economic Dependence

The Corporation provides Drilling Services to four large multinational/regional customers (2015 – three) which individually accounted for greater than 10% of its consolidated revenues during 2016. Sales to these four customers were approximately \$66.3 million, \$21.3 million, \$32.4 million and \$44.6 million respectively for the year ended December 31, 2016 (2015 - \$63.5 million, \$98.1 million, \$7.5 million and \$2.3 million).

Production Services

The Production Services segment consists of High Arctic's Well Servicing and Snubbing operations. These operations are primarily conducted in the Western Canadian Sedimentary Basin ("WCSB") through High Arctic's fleet of Well Servicing rigs, operating as Concord Well Servicing, and its fleet of stand-alone and rig assist snubbing units. In addition, High Arctic also provides work-over services in PNG with its heli-portable work-over rig.

Well Servicing

High Arctic operates one of the largest service rig fleets in the WCSB. The Corporation's service rigs are used primarily for completions, maintenance, workovers and abandonment services on producing oil and gas wells. Completion services prepare newly drilled wells for production and may include cleaning out, installing production tubing or downhole equipment. Workover services include major repairs or modifications to existing wells. Workovers are done to restore and enhance production in an existing producing well or plugging or abandoning a well. Well maintenance services are required to ensure continuous and efficient production of a producing well. These services include routine mechanical repairs or replacing damaged production tubing.

Service Rig Fleet

The table below shows the configuration of the Concord Well Servicing fleet as at December 31, 2016:

Size of Mobile Rig	Marketed	Total Owned
Single	27	38
Double	23	37
Slant	4	10
Total	**54**	**85**

Snubbing

Snubbing is the process of moving the tubing and drill pipe into and out of a wellbore under pressure. The ability of the producing formation to flow in a permanently pressure-controlled environment is a significant advantage in successfully addressing common production problems in fluid sensitive formations, low pressure reservoirs, naturally fractured reservoirs and low permeability sandstone reservoirs. The largest activity of High Arctic's Snubbing operation is running production tubing to complete wells for production.

The Stand Alone Snubbing System® was designed and developed by High Arctic in 1997 primarily to assist in the completion of shallow to medium natural gas wells without the need to have both a conventional service rig and a Rig Assist unit to perform Snubbing operations. The Stand Alone Snubbing System® allows wells to be completed while eliminating the use of a conventional service rig and Rig Assist combination by providing all self-contained support equipment required for its operation. High Arctic has developed a proprietary load management system that allows work to be conducted on the well without the transfer of extra weight to the wellhead, in order to minimize ground disturbances and enable the Stand Alone Snubbing System® to be free standing.

Snubbing Fleet

The table below shows the configuration of the Snubbing fleet as at December 31, 2016:

Type of Snubbing Unit	Marketed	Total
Stand Alone	8	16
Rig Assist	1	2
Total	**9**	**18**

Hydraulic Workover Rigs

HWRs are capable of the majority of workovers, completions, re-entries, abandonments and Snubbing operations that are otherwise conducted with conventional draw work type service rigs in combination with Rig Assist units. The HWR moves the tubular components in and out of the wellbore using hydraulic rams and slip assemblies. The Corporation owns one Heli-Portable Hydraulic Workover Rig 102 which is located in PNG.

Contracts

The Corporation's Well Servicing and Snubbing services are generally conducted under an hourly rate contract dependent upon the services being provided. The Well Servicing and Snubbing units used in well completions and workovers operate on a well-to-well, call-out basis where the customer calls for a unit to perform the required services on a particular well.

The Corporation generally signs master services agreements that govern the terms of any work provided but does not specify or guarantee any level of work. In addition, it has a number of first call arrangements whereby the customer agrees to normally give High Arctic a first chance to perform the work but does not guarantee any level of work and may not be exclusive. Not one of these contracts is material to the Corporation on an individual basis. Well Servicing and Snubbing services are typically awarded on the basis of an agreed upon bid sheet on a job by job basis. Long term contracts are not typically awarded in the industry.

Hydraulic Workover services in PNG are generally provided on a day rate basis on well-to-well programs.

The Corporation ordinarily seeks to limit its exposure to down hole risks, such as damage to the reservoir, blow outs, loss of hole and loss of equipment in the hole, other than limited liability in some instances for gross negligence. The customer also generally takes on the responsibility for well site reclamation and environmental damage associated with drilling fluids and pollution originating below the earth's surface.

Competition

The Well Servicing market in the WCSB is highly competitive with a few large competitors and many smaller competitors. High Arctic's Concord service rig division competes against approximately 980 service rigs of varying design and capacity operating in the WCSB. The ten largest service rig companies, including High Arctic, account for approximately 63% of the total registered service rig fleet in the WCSB. Service rigs typically operate within a fairly close proximity to their home base and, therefore, the competition is more localized in nature and effectively limited to other service rigs based nearby.

Similar to the Well Servicing market, competition for Snubbing services is also quite competitive, however, due to the specialized nature of these services, there are a limited number of competitors. High Arctic operates approximately 33% of the available Stand Alone snubbing units in the WCSB.

High Arctic operates the only Hydraulic Workover rig in PNG.

Ancillary Services

The Ancillary Services segment consists of High Arctic's oilfield rental equipment in Canada and PNG as well as its Canadian Nitrogen and abandonment and compliance services.

Cryogenic Liquid Nitrogen Pumping Services

The Corporation delivers liquid nitrogen to clients using N_2 pumping units. N_2 is an inert gas that is non-corrosive and non-explosive and is used in place of air whenever a risk hazard assessment dictates. Nitrogen services were originally used primarily in support of underbalanced (Snubbing) operations; however the Corporation's N_2 units are now widely used in the oil and natural gas industry. High Arctic's high pressure Cryogenic Liquid Nitrogen Pumpers are used in applications such as coil tubing clean out, purging pipelines, pressure testing vessels, and in the completion of oil and natural gas wells. Nitrogen is often pumped into the wellbore related to the underbalanced work to safely improve the recovery of introduced or produced fluids, while reducing the potential for damaging the formation.

The Cryogenic Liquid Nitrogen Bulkers are a trailer mounted storage tank that are used for transporting liquid nitrogen to the well sites for use in nitrogen pumping operations.

Nitrogen Fleet

The table below shows the configuration of the N_2 fleet as at December 31, 2016:

Type of Nitrogen Unit	Marketed	Total
Pumpers	7	12
Bulkers	3	5
Total	**10**	**17**

Equipment Rental Services

The Corporation has an extensive fleet of rental equipment in PNG and Canada. Its PNG rental fleet includes matting, cranes, forklifts, trucks, camps, pumps, generators, tanks and lighting towers. The Corporation's Canadian rental fleet primarily consists of high pressure blowout preventers, boilers, lighting towers and rig shacks. Rental of the Corporation's equipment is typically charged on a day rate basis.

Dura-Base® Mats

The Corporation's operation in PNG holds certain distribution rights for the rental of Dura-Base® mats within PNG. Dura-Base® mats are an environmental friendly mat made of a high-density polyethylene composite. The mats are suitable for a wide range of applications where access, ground protection and a solid base is required for heavy equipment. They are well suited for the difficult terrain in PNG where wet and boggy conditions are often encountered. These mats are suitable for drilling and mining activities, pipeline construction, plant construction and camp facilities. At December 31, 2016, the Corporation had approximately 4,400 Dura-Base® mats under contract in PNG and an additional 6,600 on hand. The Corporation is actively pursing domestic markets in PNG, as well as other international markets for its uncontracted mats.

Competition

The Corporation competes with a large number of service providers for its Ancillary Services. Other than the segment's fleet of specialized blowout preventers and boilers which are solely used in the oil and gas industry, its remaining fleet of rental equipment is capable of being utilized in other industries beyond oil and gas development. While this provides an expanded market, it also increases the number of potential competitors.

Due to the size of the market and remote operations, the Corporation faces less competition for its rental equipment in PNG. However, as the Corporation pursues alternative markets in PNG and internationally, it will face additional competition from other service providers operating in those markets.

The factors that will allow the Corporation to remain competitive in the markets for its Ancillary services are the Corporation's ability to supply the necessary equipment and services when required at competitive prices.

Seasonality

The Corporation's Canadian Production Services and Ancillary Services operations are seasonal in nature and are impacted by weather conditions that may hinder the Corporation's ability to access locations or move heavy equipment. The highest rate of activity in the industry is typically during the winter season, from November through March when frozen ground conditions allow for the movement of equipment in the field. The lowest period of activity is during spring breakup which commences with the thawing of the frozen winter ground in March until the completion of wet spring weather in June. During this period, wet ground conditions prevent the movement of heavy equipment.

High Arctic's inability to operate during any period has a higher impact on the results of its operations compared to some of its competitors who are in a position to deploy additional, potentially idle, equipment in the face of "catch-up" demand after the adverse operating conditions have subsided. The Corporation has mitigated some of this risk through its international operations which are not as dependent on weather and do not have the same seasonality constraints as its Canadian operations.

Environmental Protection

The Canadian and PNG oil and natural gas industries are regulated by a number of federal, provincial and state governmental bodies and agencies under a variety of federal, provincial and state legislation that sets forth numerous prohibitions and requirements, with respect to planning and approval processes related to land use, sustainable resource management, waste management, responsibility for the release of presumed hazardous materials, protection of wildlife and the environment and the health and safety of workers. Legislation provides for restrictions and prohibitions on the transport of dangerous goods and the release or emission of various substances, including substances used and produced in association with certain oil and natural gas industry operations. The legislation addresses various permits, drilling, access road construction, camp construction, well completion, installation of surface equipment, air monitoring, surface and ground water monitoring in connection with these activities, waste management and access to remote or environmentally sensitive areas.

The operations of the Corporation are subject to a variety of federal, provincial, state and local laws, regulations and guidelines, and as a consequence, the various environmental and health and safety statutes and regulations governing the manufacturing, processing, importation, transportation, handling and disposal of substances used in oil and natural gas operations. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in the imposition of material fines and penalties. The Corporation did not incur any material expenditure in the past year as a result of environmental protection requirements, nor does it anticipate environmental protection requirements to have a material financial or operational impact on the capital expenditures, earnings or competitive position of the Corporation in 2017. See *"Risk Factors – Environmental Liability"* and *"Risk Factors – Government Regulation".*

Employees

At December 31, 2016, High Arctic had the following number of employees:

Operating Region	Number of Employees
PNG	307
Canada (including Corporate administration)	502
Total	**809**

RISK FACTORS

The Corporation's business is subject to a number of risks and uncertainties, some of which are summarized below. Readers should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings prior to making an investment in the Corporation's Common Shares. If any such risks were to materialize, the Corporation's business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In turn, this could have a material adverse effect on the trading price of the Common Shares. The risks set out below are not an exhaustive list, nor should they be taken as a complete summary or description of all the risks associated with the Corporation's business and the oil and gas service business generally.

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

- volatility in global supply and demand and market prices for oil and natural gas and the effect of these volatilities on the demand for oilfield services generally;
- uncertainties in weather affecting the duration of the service periods and the activities that can be completed, including the seasonality that affects industry activity in Canada;
- reduction in industry activity levels due to lower commodity prices;
- changes in legislation and the regulatory environment, including uncertainties with respect to implementing environmental initiatives;

- alternatives to and changing demands for petroleum products;
- the worldwide demand for oilfield services in connection with the workover and completion of oil and natural gas wells;
- general economic conditions in Canada, the United States and Southeast Asia including variations in currency exchange rates and interest rates;
- liabilities and risks inherent in oil and natural gas operations, including environmental liabilities and risks arising below ground surface;
- credit risks associated with customers in the oil and natural gas industry, including the inability of a significant customer to pay for goods and services that have been provided; and
- risks inherent in foreign operations, including political and economic risk and the risk of foreign currency controls that could restrict the transfer of funds in or out of countries in which the Corporation operates or result in the imposition of taxes on such transfers;

These factors may have an impact upon the Corporation's customer base which, in turn, would impact the Corporation's business prospects. The following provides a further description of the risks associated with the Corporation's business and the oilfield services business in general. This list should not be taken as an exhaustive list, nor should it be taken as a complete summary or description of all the risks associated with the Corporation's business.

Volatility of Industry Conditions

The demand, pricing and terms for the Corporation's services depend significantly upon the level of expenditures made by oil and gas companies on exploration, development and production activities. Expenditures by oil and gas companies are typically directly related to the demand for, and price of, oil and gas. Generally, when commodity prices and demand are predicted to be, or are relatively high, demand for High Arctic's services is high. The converse is also true.

The prices for crude oil and gas have fluctuated widely during recent years and may continue to be volatile in the future. Crude oil prices have decreased significantly since mid-2014 and have fluctuated in response to a variety of factors beyond High Arctic's control, including: global energy supply, production and policies, including the ability of the Organization of Petroleum Exporting Countries ("OPEC") to set and maintain production levels in order to influence prices for oil; oil and gas production by non-OPEC countries; the level of consumer demand; political conditions, including the risk of hostilities in the Middle East and global terrorism; global and domestic economic conditions, including currency fluctuations; cost of exporting, producing and delivering oil and gas; technological advances affecting energy consumption; weather conditions; the effect of world-wide energy conservation and greenhouse gas reduction measures and the price and availability of alternative energy sources; and government regulations.

In addition to current and future oil and gas prices, the level of expenditures made by oil and gas companies are influenced by numerous factors over which the Corporation has no control, including but not limited to: general economic conditions; the cost of exploring for, producing and delivering oil and gas; the discovery rates of new oil and gas reserves; cost and availability of drilling equipment; availability of pipeline and other oil and gas transportation capacity; North American natural gas storage levels; taxation and royalty changes; government regulation; environmental regulation; ability of oil and gas companies to obtain credit, equity capital or debt financing; and currency fluctuations in the jurisdiction where we operate. A further decline in expenditures by oil and gas companies caused by the decrease in crude oil prices since mid-2014 and continued low natural gas prices or otherwise, could have a material adverse effect on High Arctic's business, financial condition, results of operations and cash flows.

Reliance on Key Personnel

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

Dependence on Major Customers

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 four large multinational/regional customers in PNG which accounted for approximately 79% of the Corporation's revenue in 2016. The Corporation has historically had a stable relationship with these customers, however, there can be no assurance that the Corporation's relationship with these customers will continue. A significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, may have a material adverse effect on the Corporation's business, results of operations, financial condition and cash flows.

Excess Equipment Levels in the Industry

Due to the long-life nature of oilfield service equipment and the long delivery time for equipment being manufactured, the quality of equipment available does not always correspond with the demand for its use. Periods of high demand often lead to increases in capital expenditures, which in turn lead to increased supply and decreased demand. Such increases in supply often lead to downward pricing pressures across the industry which could materially impact the Corporation's profitability. Additionally, the Corporation could fail to secure sufficient work in which to employ its equipment, which could have a material adverse effect on the Corporation's business, results of operations, financial conditions and cash flows.

Competition

The oil and gas services industry is highly competitive and the Corporation competes with a substantial number of companies which may have more equipment and personnel as well as greater financial resources. The Corporation's ability to generate revenue and earnings depends primarily upon its ability to win bids in competitive bidding processes and to perform awarded projects within estimated times and costs. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of products and services that compete with those of the Corporation or that new or existing competitors will not enter the various markets in which the Corporation is active. In certain aspects of its business, the Corporation also competes with a number of small and medium-sized companies, which, like the Corporation, have certain competitive advantages such as low overhead costs and specialized regional strengths. In addition, reduced levels of activity in the oil and natural gas industry can intensify competition and may result in lower revenue for the Corporation.

Safety Performance

Standards for the prevention of incidents in the oil and natural gas industry are governed by service company safety polices and procedures, accepted industry safety practices, customer specific safety requirements and health and safety legislation. Many customers consider safety performance a key factor in selecting oilfield service providers. Deterioration of the Corporation's safety performance could result in a decline in the demand for the Corporation's services and could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Operational Risk and Insurance

The Corporation's operations are subject to operational risks inherent in the oil and natural gas industry. These risks include equipment defects, malfunction and failures, human error, natural disasters, vehicle accidents, explosions and uncontrollable flows of natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruptions and damage to or destruction of property, equipment and the environment. These risks could expose the Corporation to substantial liability for personal injury, wrongful death, property damage, loss of oil and natural gas production, pollution, and other environmental damages. The frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators.

Although the Corporation maintains insurance coverage that it believes is adequate and customary for an operator in the oilfield services industry, there can be no assurance that such insurance will be adequate to cover the Corporation's future liabilities. In addition, there can be no assurance that the Corporation will be able to maintain adequate insurance at rates it considers reasonable and commercially justifiable. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits to be maintained by the Corporation, or a claim at a time when the Corporation is not able to obtain liability insurance, could have a material adverse effect on the Corporation's ability to conduct normal business operations and on its financial condition, results of operations and cash flows.

Risks Applicable to the Corporation's International Activities

The Corporation operates in international locations, including PNG, which displays characteristics of an emerging market. The Corporation's operations in PNG and elsewhere are subject to special risks inherent in doing business outside Canada. These risks can involve matters arising out of the policies of foreign governments, imposition of special taxes or similar charges by government bodies, restrictions on carrying on business or the revocation or non-issuance of licenses to carry on business by a foreign government, foreign exchange fluctuations and controls, civil disturbances and deprivation or unenforceability of contract rights or the taking of property without fair compensation. Foreign properties, operations and investments may be adversely affected by local political and economic developments, including nationalization, laws affecting foreign ownership, government participation, royalties, duties, rates of exchange, exchange controls, currency fluctuation, taxation and new laws or policies as well as by laws and policies of Canada affecting foreign trade, investment and taxation.

Furthermore, it is important for the Corporation to maintain good relationships with the governments in the countries in which it operates. The Corporation may not be able to maintain such relationships if the governments of these countries change. Certain regions in which the Corporation may conduct operations have been subject to political and economic instability. The Corporation's operations are subject to government legislation, policies and controls relating to environmental protection, taxes and labour standards. To attempt to mitigate these risks, the Corporation employs personnel with extensive experience in the international marketplace, supplemented with qualified local staff. Management is unable to predict the extent or duration of these risks or quantify their potential impact.

Since the Corporation derives a majority of its revenues from its subsidiaries incorporated outside Canada, the payment of dividends or the making of other cash payments or advances by these subsidiaries to the Corporation may be subject to restrictions or controls on the transfer of funds in or out of these countries or result in the imposition of taxes on such payments or advances. In addition, since the Corporation's international activities are governed by foreign laws, in the event of a dispute, the Corporation may be subject to the exclusive jurisdiction of foreign courts and the application of foreign laws, or may not be successful in subjecting foreign persons to the jurisdiction of Canadian courts.

The Bank of PNG policy continues to encourage the local market in PNG Kina. Due to High Arctic's requirement to transact with international suppliers and customers, High Arctic has received approval to continue to maintain its U.S. dollar account within the conditions of the Bank of PNG currency regulations. The Corporation has taken steps to increase its use of PNG Kina for local transactions when practical. Included in the Bank of PNG's conditions is for future drilling contracts to be settled in PNG Kina. However, the Corporation will continue to seek Bank of PNG approval for the customer contracts to be settled in U.S. Dollars on a contract by contract basis. There is no assurance the Bank of PNG will continue to grant these approvals.

If such approvals are not received, the Corporation's PNG drilling contracts will be settled in PNG Kina which would expose the Corporation to exchange rate fluctuations related to the PNG Kina. In addition, this may delay the Corporation's ability to receive U.S. Dollars which may impact the Corporation's ability to settle U.S. Dollar denominated liabilities and repatriate funds from PNG on a timely basis. The Corporation is evaluating various alternatives to help to mitigate its exposure to these currency controls. The Corporation intends to repatriate excess funds from PNG consistent with past practices as approval is received from the Bank of PNG and the Internal Revenue Commission.

Government Regulation

The operations of the Corporation in Canada, PNG and elsewhere are subject to a variety of federal, provincial and local laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers. Although such expenditures historically have not been material to the Corporation, such laws or regulations are subject to change and may be material to the Corporation in the future. Accordingly, it is impossible to predict the cost or impact that such laws and regulations may have on the Corporation or its future operations.

Sources, Pricing and Availability of Equipment and Equipment Parts

The Corporation sources its equipment and equipment parts from a variety of suppliers which are located throughout the world. Failure of suppliers to deliver supplies and materials in a timely and efficient manner would be detrimental to the Corporation's ability to maintain levels of service to its customers. The Corporation is also dependent on the technical services of other parties for certain parts and services. High Arctic attempts to mitigate this risk by maintaining good relations with key suppliers. However, if the current suppliers are unable to provide the supplies and materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to our clients could have a material adverse effect on our results of operations and our financial condition.

Environmental Regulations

Future federal legislation, including potential international or bilateral requirements enacted under Canadian law, together with provincial emission reduction requirements, such as those in effect under Alberta's Climate Change and Emissions Management Act and potential further provincial requirements, may require the reduction of emissions or emissions intensity from the Corporation's operations and facilities. Mandatory emissions reductions may result in increased operating costs and capital expenditures for oil and natural gas producers, thereby decreasing the demand for the Corporation's services. The mandatory emissions reductions may also impair the Corporation's ability to provide its services economically. The Corporation is unable to predict the impact of current and pending emissions reduction legislation on the Corporation and its customers and it is possible that such impact would have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Financing Risk

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

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

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to continually monitor its financial resources to provide 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.

Third Party Credit Risk

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

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 four large multinational/regional customers. As at December 31, 2016, these four customers represented 16%, 16%, 22% and 19%, respectively, of outstanding accounts receivable. Management has assessed the four customers as creditworthy and the Corporation has had no history of collection issues with these customers, however, the inability for the Corporation's customers to meet their financial obligation to the Corporation could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Seasonality

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. Spring break-up leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment particularly during the second quarter, which results in severe restrictions in the level of oilfield services. The duration of this period will have a direct impact on the level of the Corporation's activities. Spring break-up occurs earlier in the year in south-eastern Alberta than it does in northern Alberta and British Columbia. The timing and duration of spring break-up is dependent on weather patterns but it generally occurs in April and May. Additionally, if an unseasonably warm winter prevents sufficient freezing, the Corporation may not be able to access well sites and its operating results and financial condition may therefore be adversely affected. The demand for oilfield services may also be affected by the severity of the Canadian winters. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenues. The volatility in the weather and temperature can therefore create unpredictability in activity and utilization rates, which could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Foreign Exchange Rate Risk

Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results. The majority of the Corporation's international revenue and expenses are transacted in U.S. dollars and the Corporation does not actively engage in foreign currency hedging. For the year ended December 31, 2016, a $0.10 change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $2.7 million change in net earnings for the year as a result of changes in foreign exchange.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Corporation considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired businesses may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of, so that the Corporation can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Corporation, if disposed of, could realize less than their carrying value in the financial statements of the Corporation.

Technology Risks

The ability of the Corporation to meet customer demands in respect of performance and cost will depend upon continuous improvements in operating equipment. There can be no assurance that the Corporation will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by the Corporation to do so could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. No assurances can be given that competitors will not achieve technological advantages over the Corporation.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Significant Shareholders

The Corporation has one Shareholder that directly or indirectly has the ability to control the votes to approximately 41.2% of the issued and outstanding Common Shares and, as such, may be in a position to significantly influence the outcome of actions requiring Shareholder approval.

Internal Control Deficiencies

Senior management personnel have conducted reviews and designed and developed processes to ensure that internal controls are established and adhered to. Based upon their evaluation of the internal controls, the Chief Executive Officer and Chief Financial Officer have satisfied themselves that the internal controls are effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, the Corporation's potential inability to successfully address potential material weaknesses in internal controls or other control deficiencies may affect its ability to report its financial results on a timely and accurate basis and to comply with disclosure and other requirements.

Dividends

The amount of future cash dividends paid by the Corporation will be subject to the discretion of the board of directors of the Corporation and may vary depending on a variety of factors and conditions existing from time to time, many of which will be beyond the control of the Corporation. These factors and conditions include fluctuations in capital expenditure requirements, debt service requirements, restrictions imposed on the Corporation by its lenders, operating costs, foreign exchange rates and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. The can be no assurance that the Corporation will pay dividends in the future.

Dilution

High Arctic may make future acquisitions or enter into financings or other transactions involving the issuance of securities of High Arctic which may be dilutive.

Volatility in Market Price of Common Shares

The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Corporation's control, including the following: (i) actual or anticipated fluctuations in High Arctic's financial results; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other companies that investors deem comparable to High Arctic; (iv) the loss or resignation of members of Management or the Board and other key personnel of High Arctic; (v) sales or perceived sales of additional Common Shares; (vi) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving High Arctic or its competitors where High Arctic does not realize its anticipated benefits from such transaction; (vii) trends, concerns, technological or competitive developments, regulatory changes and other related issues in the oil and natural gas industry; and (viii) actual or anticipated fluctuations in interest rates.

Financial markets have experienced significant price and volume fluctuations in recent years that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if High Arctic's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values which may result in impairment losses.

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 facility, when drawn upon, is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. For the year ended December 31, 2016, a 1% nominal change in the interest charged to the Corporation under its credit facility would not have been material.

Income Tax Risk

The Corporation has risks for income tax matters, including the unanticipated tax and other expenses and liabilities of the Corporation due to changes in income tax laws. The Corporation must file tax returns in the foreign jurisdictions in which it operates. The tax laws and the prevailing assessment practices are subject to interpretation and the foreign authorities may disagree with the filing positions adopted by the Corporation. The impact of any challenges cannot be reliably estimated and may be significant to the financial position or overall operations of the Corporation.

Forward-Looking Statements and Information May Prove Inaccurate

Shareholders and prospective investors are cautioned not to place undue reliance on the Corporation's forward-looking statements and information. By its nature, forward-looking statements and information involve numerous assumptions, known and unknown risk and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties related to forward-looking statements and information are found under the heading "Note Regarding Forward-Looking Statements" in this AIF.

Conflicts of Interest

Certain directors or officers of High Arctic may also, or may in the future be, directors or officers of other companies that may compete or be counterparties to agreements with High Arctic, and as such may, in certain circumstances, have a conflict of interest. Conflicts of interest, if any, will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with High Arctic disclose his or her interest and, in the case of directors, refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA. See "*Directors and Officers - Conflicts of Interest*".

Breach of Confidentiality

While discussing potential business relationships or other transactions with third parties, High Arctic may disclose confidential information relating to the business, operations or affairs of the Corporation. Although confidentiality agreements are to be signed by third parties prior to the disclosure of any confidential information, a breach of such confidentiality agreement could put High Arctic at competitive risk and may cause significant damage to its business. The harm to High Arctic's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There can be no assurance that, in the event of a breach of confidentiality, High Arctic will be able to obtain equitable remedies, such as injunctive relief from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

DIVIDENDS AND DISTRIBUTIONS

On May 17, 2012, the Corporation instituted a dividend policy and the first monthly dividend of $0.01 per Common Share was paid on June 14, 2012. From 2014 to 2016, the Corporation increased its dividend from $0.0125 per month to $0.0165 per Common Share.

For the Year Ended	Aggregate Annual Dividend per Common Share
2014	$0.178
2015	$0.198
2015	$0.198

To the date of this AIF, dividends totalling $0.033 per Common Share have been declared for 2017.

The declaration and payment by the Corporation of any future dividends or distributions on the Common Shares and the amount will be at the discretion of Board and will be established on the basis of the Corporation's earnings, financial requirements and other conditions existing from time-to-time. There can be no assurance that the Corporation will continue to pay any dividends or distributions in the future.

CAPITAL STRUCTURE

The Corporation is authorized to issue an unlimited number of Common Shares and an unlimited number of Preferred Shares. The Corporation's Common Shares trade on the TSX under the symbol "HWO".

As at December 31, 2016 there were 53,180,969 issued and outstanding Common Shares which includes 6,600 Common Shares held in the Share Incentive Plan (as defined herein) that have not yet vested and which may be cancelled under certain circumstances related to a three year vesting period. No Preferred Shares have been issued.

Each Common Share entitles its holder to receive notice of and to attend all meetings of the Shareholders and to one vote at such meetings. The holders of Common Shares are, at the discretion of the board of directors, entitled to receive any dividends declared by the board of directors. The holders of Common Shares are entitled to share equally in any distribution of the assets of the Corporation upon its liquidation, dissolution, bankruptcy or winding-up or other distribution of its assets among its Shareholders for the purpose of winding-up its affairs.

The Preferred Shares may be issued from time to time in one or more series, each consisting of such number of Preferred Shares as determined by the board of directors of the Corporation, who also may fix the designations, rights, privileges, restrictions and conditions attaching to the shares of each series of Preferred Shares. The Preferred Shares of each series shall, with respect to payment of dividends and distribution of assets in the event of voluntary or involuntary liquidation, dissolution or winding-up of the Corporation or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, rank on a parity with the Preferred Shares of every other series and shall be entitled to preference over the Common Shares and the shares of any other class ranking junior to the Preferred Shares.

Executive and Director Share Incentive Plan

On June 29, 2010, the shareholders approved an Executive and Director Share Incentive Plan (the "Share Incentive Plan"). The purpose of the Share Incentive Plan is to provide an incentive to the directors and executive officers of the Corporation to achieve and support the strategic growth objectives of the Corporation, to give suitable recognition of the contribution of those individuals to the overall success of the Corporation and to attract, motivate and retain managerial talent at both the director and executive levels, by providing them with the opportunity to acquire an increased proprietary interest in the Corporation. The Share Incentive Plan provides that Common Shares (the "Incentive Shares") may be issued to executive officers and directors of the Corporation who are determined by the Committee to be eligible to participate.

The maximum number of Incentive Shares initially available for issuance by the Corporation under the Share Incentive Plan was 7,578,444. No cash consideration is payable for the Incentive Shares with the consideration being wholly the future services of management. These shares are issued in trust for the benefit of designated beneficiaries and vest to each designated beneficiary over a three-year period. The designated beneficiaries of the restricted Common Shares held in trust have full voting, liquidity, dividend and other related rights similar to the holders of the unrestricted issued Common Shares. The shares are not freely tradable prior to vesting and any shares that do meet the vesting conditions are returned by the trustee to the Corporation for cancellation. The number of Incentive Shares granted is reflected under the total issued and outstanding Common Shares while the value of these shares will be included in the Common Share capital amount as they vest over the three-year vesting period and an equivalent share based compensation amount is recorded.

A total of 7,465,000 Incentive Shares have been issued to date of which 6,579,900 have vested, 6,600 have not yet vested and 878,500 had been forfeited and cancelled as at December 31, 2016. A total of 113,444 Incentive Shares were available to be issued at December 31, 2016.

Credit Facility

As at December 31, 2016, High Arctic's credit facilities consisted of a $40.0 million revolving loan and a $5.0 million revolving operating loan which matured on August 31, 2017. Subsequent to year end, the facilities were combined into a single $45.0 million revolving loan and extended to August 31, 2018. The facility is renewable with the lender's consent and is secured by a general security agreement over the Corporation's assets.

The available amount under the extended $45.0 million revolving loan facility is limited to 60% of the net book value of the Canadian fixed assets plus 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement.

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. As of the date hereof, High Arctic was not in default of any of its covenants under the facility.

MARKET FOR SECURITIES

Trading Summary

The Common Shares are listed for trading on the TSX under the symbol "HWO". The following table sets forth the price range and trading volume of the Common Shares as reported by the TSX for the months indicated during 2016:

Month	High ($)	Low ($)	Volume
January	$ 3.54	$ 2.73	1,315,500
February	$ 3.43	$ 2.92	1,735,300
March	$ 3.58	$ 2.97	2,885,200
April	$ 3.94	$ 3.42	2,381,500
May	$ 4.33	$ 3.47	1,696,000
June	$ 4.25	$ 3.88	1,916,200
July	$ 4.09	$ 3.67	1,445,500
August	$ 3.89	$ 3.29	2,128,800
September	$ 4.20	$ 3.51	2,574,900
October	$ 4.80	$ 4.17	2,298,500
November	$ 4.89	$ 4.25	2,042,000
December	$ 5.43	$ 4.71	2,215,700

Prior Sales

A total of 5,318,097 options (being 10% of all outstanding shares) were available for grant as at December 31, 2016 under the Stock Option Plan. At December 31, 2016, a total of 1,851,600 options were outstanding and expire at various dates up to 2021, at amounts that range from $1.74 to $5.32 per share. A total of 113,444 Common Shares remain available to be issued under the Share Incentive Plan.

The following table summarizes the issuances of securities convertible into Common Shares for the year ended December 31, 2016.

Date of Issuance	Type of Securities (1)	Number of Securities	Issue Price Per Security (2)	Expiration Date	Price per Security
March 1, 2016	Stock Options	150,000	$3.46	March 1, 2021	Not Applicable
July 9, 2016	Stock Options	35,000	$3.67	July 9, 2021	Not Applicable
December 5, 2016	Stock Options	20,000	$4.77	December 5, 2021	Not Applicable

Notes:

(1) The stock options were issued in accordance with High Arctic's Stock Option Plan.
(2) Represents the exercise price of the stock option.

DIRECTORS AND OFFICERS

The following table sets forth the names and municipalities of residence of those individuals who are directors and officers of the Corporation, together with their principal occupations and positions held during the last five years:

Name and Municipality of Residence	Position	Director / Officer Since	Principal Occupation During the Preceding Five Years
Michael Rupert Binnion(1,4) *Calgary, Alberta*	Director and Chairman of the Board	May, 2007	President and Chief Executive Officer of Questerre Energy Corporation since November 2000.
Daniel John Bordessa(2,6) *Cayman Islands*	Director	April, 2011	Partner, Cyrus Capital Partners, L.P. and Managing Director Cyrus Capital Partners Europe, LLP between March 2005 and September 2010.
Simon Paul David Batcup(7) *Toronto, Ontario*	Director	May, 2009	Mr. Batcup is an independent businessman. He was Vice President, Operations for Sylogist Ltd. (a public consulting company) from October, 2010 to March, 2013, prior thereto a business consultant from October, 2009 to September 2010 and Managing Director of Optimal Joint Venture from Jan 1, 2008 to September, 2009.
Steven Ray Vasey(3,8) *Calgary, Alberta*	Director	May, 2009	Mr. Vasey is currently an independent consultant working throughout North America. He has been actively involved in the executive management of public seismic service companies operating on land and offshore in North America, Europe, Africa and the Middle East throughout his 30 year career.

Joseph Oliver[2,5] *Toronto, Ontario*	Director	June 2016	Honourable Joe Oliver is currently the Chair of the Advisor Board of Origin Merchant Partners, Distinguished Senior Fellow of the Montreal Economic Institute (MEI), a Director of Firm Capital Mortgage Investment Corporation, Chair of the Independent Review Committee of RP Strategic Income Plus Fund and Governor of the Mackenzie Institute. He is the former Minister of Finance, Minister of Natural Resources and Minister Responsible for the GTA.
Ember Willow Marie Shmitt[4,6] *New York, New York*	Director	July 2016	Mrs. Shmitt is currently the Director of Investor Relations at Cyrus Capital Partners. She has over 10 years of experience in financial strategy, investor relations and firm branding.
Thomas M. Alford *Calgary, Alberta*	President and CEO and Director	President and CEO since August 2016 Director since January 2014	Appointed as Chief Executive Office in August 2016. Mr. Alford is an independent businessman. He was the President & CEO of IROC Energy Services Corporation from 2001 until April, 2013.
Brian Bruno Peters *Calgary, Alberta*	Chief Financial Officer and Corporate Secretary	CFO since November, 2015 Corporate Secretary since November, 2016	Joined the Corporation as Chief Financial Officer in November 2015. Prior to that, Vice President Integrated Fluid Solutions at Secure Energy Services Inc. from February 2014. Prior to that he provided financial and management consulting services and held Chief Financial Officer roles with EnerMax Services Inc. and IROC Energy Services Corp.
Daniel Benoit Beaulieu *Red Deer, Alberta*	Chief Operating Officer - Canada	January, 2012	Appointed as Chief Operating Officer, Canada in November 2013. Joined the Corporation as Vice President, Canadian Operations in January 2012. Prior to that, Canadian Region Business Unit Manager at Weatherford International where he managed various integrated product lines throughout Canada.
Michael Joseph Maguire *Brisbane, Australia*	President, International Operations	December, 2013	Appointed President, International Operations in December 2016. Joined the Corporation as Vice-President, International Operations in December 2013. Prior to that, he spent seven years with Easternwell Group in various positions of increasing seniority.

Notes:

(1) Chairman of the Audit Committee
(2) Member of the Audit Committee
(3) Chairman of the Governance and Nominating Committee
(4) Member of the Governance and Nominating Committee
(5) Chairman of the Remuneration Committee
(6) Member of the Remuneration Committee
(7) Chairman of the Quality, Health, Safety & Environment Committee
(8) Member of the Quality, Health, Safety & Environment Committee

The directors listed above will hold office until the next annual general meeting of the Corporation or until their successors are elected or appointed.

Securities of Directors and Officers

To the knowledge of the Corporation, as at December 31, 2016, the directors and executive officers of the Corporation, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 2,712,467 Common Shares of the Corporation, or approximately 5.1% of the 53,180,969 Common Shares of the Corporation then issued and outstanding. The Common Shares beneficially owned, directly or indirectly, or over which control or direction is exercised, is based upon information furnished to the Corporation by the above individuals and/or management.

FBC Holdings Sàrl ("FBC") owned 41.2% of the issued and outstanding shares of High Arctic as of December 31, 2016. Daniel Bordessa, a Director of the Corporation, is a partner of Cyrus Capital Partners, L.P., which is the investment manager of FBC. Under certain circumstances, under the partnership agreement of Cyrus Capital Partners, L.P., Mr. Bordessa could become a controlling partner thereby able to indirectly exercise control or direction over the Common Shares of the Corporation owned by the partnership.

Conflicts of Interest

Circumstances may arise where members of the board of directors or officers of the Corporation are directors or officers of Corporations which are in competition to our interests. No assurances can be given that opportunities identified by such board members or officers will be provided to the Corporation. Pursuant to the ABCA, directors who have an interest in a proposed transaction upon which our board of directors are voting are required to disclose their interests and refrain from voting on the transaction. As at the date hereof, High Arctic is not aware of any existing or potential material conflicts of interest between the Corporation or one of its subsidiaries and one of its directors or officers.

Cease Trade Orders

To the knowledge of the Corporation, no director or executive officer of the Corporation, as at the date of this AIF, or within 10 years before the date of this AIF, has been, a director, chief executive officer or chief financial officer of any company, that:

(a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

(b) was subject to a cease trader order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer cease to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Bankruptcies

Except as noted below, to the knowledge of the Corporation, no director or executive officer of the Corporation, or a Shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, is:

(a) as at the date of this AIF, or has been within the 10 years before the date of this AIF, a director or executive officer of any company that, while that person was acting that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has within the 10 years before the date of the AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Daniel Bordessa was a director of Angel Mining plc between August 21, 2009 and October 22, 2012 and was appointed to the director seat as a representative of Cyrus Capital Partners, L.P. Cyrus Capital Partners, L.P., is the investment manager for certain funds that are the senior secured debt providers and largest shareholder (on a fully diluted basis) of Angel Mining plc. On March 1, 2013 Angel Mining plc, with the agreement of Cyrus Capital Partners, L.P., appointed the administrators Cork Gully LLP in the United Kingdom as a result of liquidity issues at its subsidiaries.

Regulatory Actions

To the knowledge of the Corporation, no director or executive officer of the Corporation, or a Shareholder holding a sufficient number of securities of the Corporation to materially affect the control of the Corporation, has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

AUDIT COMMITTEE INFORMATION

Audit Committee Charter

The primary function of the Audit Committee is to assists the board of directors of the Corporation in fulfilling its oversight responsibilities for financial reporting processes, financial statements and risk management. The Audit Committee Charter of the Corporation is set forth in Schedule “A” attached to this AIF.

Composition of the Audit Committee

The Audit Committee currently has 3 members: Michael Binnion, Daniel Bordessa and Joe Oliver. None of the Audit Committee members has a direct or indirect material relationship with the Corporation. Furthermore, each member of the Audit Committee has been determined by the Board to be “independent” as defined in National Instrument 52-110 – Audit Committees (“NI 52-110”). The Audit Committee members are all financially literate, meaning the member has the ability to read and understand a set of financial statements that present a breadth and level of complexity of the issues that can be expected to be raised by the Corporation’s financial statements.

Relevant Education and Experience of Members of the Audit Committee

The following is a description of the education and experience of each member of the Audit Committee.

Michael R. Binnion – Chairman

Mr. Binnion has been actively involved in the financing, executive management and directorship of numerous private and public companies through his investment company, Rupert’s Crossing Inc. Mr. Binnion is founder and Chief Executive Officer of Questerre Energy Corporation; a Calgary based independent energy company listed on the TSX. Mr. Binnion also holds board positions on four other private companies. Mr. Binnion is a Chartered Professional Accountant and holds a Bachelor of Commerce degree from the University of Alberta.

Daniel J. Bordessa

Mr. Bordessa joined the Board in April of 2011. Mr. Bordessa is a Partner of Cyrus Capital Partners, L.P. (Cyrus) and was formerly a Managing Director of Cyrus Capital Partners Europe, LLP. Mr. Bordessa has been actively involved in the financial advisory and investment business through equity and debt investments in public and private companies. Mr. Bordessa is responsible for the origination, execution and management of complex financial transactions on behalf of the funds which Cyrus manages. Mr. Bordessa also sits on a number of boards of public and privately held companies in Canada and internationally. Mr. Bordessa holds a Masters of Business Administration degree from the Schulich School of Business at York University and an Honours Bachelor of Commerce degree from Carleton University.

Joe Oliver

Mr. Oliver joined the Board in June of 2016. Mr. Oliver was a federal Member of Parliament from May, 2011 to April, 2015 and served first as Minister of Natural Resources and then as Minister of Finance during his term in office. Previously, Mr. Oliver served as Executive Director of the Ontario Securities Commission and as the President and CEO of the Investment Dealers Association of Canada. He received a Bachelor of Arts degree and a Bachelor of Civil Law degree from McGill University and an MBA from the Harvard Business School.

Pre-Approval Policies and Procedures

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services as outlined in section 4(24) of the Audit Committee Terms of Reference attached as Schedule “A” of this AIF.

External Auditor Services Fees

The table below provides information about the fees billed to the Corporation by PricewaterhouseCoopers LLP in fiscal 2016 and 2015 dividing the services into the categories of work performed:

Type of Work	2016 Fees	2015 Fees
Audit Fees (1) – Canada	$249,500	$300,000
Audit Fees (1) – Foreign Subsidiaries	210,500	220,000
Audit Related Fees (2)	31,000	29,700
Valuation services (3)	-	15,750
Tax fees (3)	54,000	62,700
Total	**$545,000**	**$628,150**

Notes:

(1) Audit fees consist of fees for the audit of the Corporation’s annual financial statements, the review of the Corporation’s interim financial statements and services that are normally provided in connection with statutory and regulatory filings or engagements.

(2) Audit-related fees consist of fees for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation’s financial statements and are not reported as audit fees. Such fees include services provided in conjunction with the filing of regulatory documents by the Corporation.

(3) All non-audit services are disclosed to and pre-approved by the Audit Committee.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Corporation is not party to any legal proceeding, nor was it a party to any legal proceedings during the 2016 financial year, nor is the Corporation aware of any contemplated legal proceedings involving the Corporation, its subsidiaries or any of its property which involves a claim for damages exclusive of interest and costs that may exceed 10% of the current assets of the Corporation.

There are no penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority during legal proceedings material to the Corporation to which the Corporation is a party or of which any of its property is the subject matter, and there are no such proceedings known to the Corporation to be contemplated during the financial year ended December 31, 2016.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Cyrus Capital Partners L.P., as investment manager to FBC Holdings Sàrl, owns 41.2% of the issued and outstanding shares of High Arctic as of December 31, 2016. Daniel Bordessa, a Director of the Corporation, is a Partner of Cyrus Capital Partners L.P. Other than the aforementioned or pursuant to the related party transactions, as set out in the consolidated audited financial statements for the year-ended December 31, 2016, there were no other material interests, direct or indirect, of directors and executive officers of the Corporation or any Shareholder who is the direct or indirect beneficial owner of, or who exercises control or direction over more than 10% of the Common Shares, or any known associate or affiliate of such persons in any transaction within the three most recently completed financial years or during the current financial year which has materially affected or will materially affect the Corporation.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Corporation are PricewaterhouseCoopers LLP, Chartered Professional Accountants, 3100, 111 – 5th Avenue S.W., Calgary, Alberta T2P 5L3.

Computershare Investor Services is the registrar and transfer agent for the Common Shares of the Corporation at its offices in Calgary, Alberta and Toronto, Ontario.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business (unless otherwise required by applicable securities requirements to be disclosed) and the credit facility agreement discussed under the heading *"Capital Structure",* neither the Corporation nor its subsidiaries have entered into any material contracts within the last financial year, or before the last financial year that are still in effect.

INTEREST OF EXPERTS

There is no person or company whose profession or business gives authority to a statement, report or valuation made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Corporation during, or related to, the Corporation's most recently completed financial year other than PricewaterhouseCoopers LLP, the Corporation's auditors.

PricewaterhouseCoopers LLP are independent pursuant to the rules of professional conduct of the Institute of Chartered Professional Accountants of Alberta.

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans is contained in the Corporation's Management Proxy and Information Circular for its most recent annual meeting of Shareholders. Additional financial information is contained in the Corporation's audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2016, which are also available on SEDAR at www.sedar.com.

SCHEDULE A

HIGH ARCTIC ENERGY SERVICES INC.
AUDIT COMMITTEE TERMS OF REFERENCE

1. Constitution

Pursuant to the *Business Corporations Act* (Alberta), the bylaws of High Arctic Energy Services Inc. (the **"Corporation"** or "**High Arctic**") and annual resolutions of the Board of Directors of the Corporation (the **"Board"**) and in intended compliance with applicable corporate and securities laws and the requirements of each stock exchange upon which securities of the Corporation are traded, there is hereby constituted, as a standing committee of the Board, a committee designated as the "Audit Committee" (the **"Committee"**), which Committee is delegated the powers and subject to the terms of reference hereinafter set forth.

2. Mandate

The mandate of the Committee shall be to assist the Board in fulfilling its oversight responsibilities in respect of: (i) the adequacy, integrity and effectiveness of the Corporation's and its subsidiaries (collectively, "**High Arctic**") financial reporting process and financial statements, including, without limitation, the adequacy, integrity and effectiveness of internal financial and management controls and systems; and the adequacy and integrity of the audit process; and (ii) risk management for High Arctic, including, without limitation, the adequacy, integrity and effectiveness of risk management systems and reporting, in addition to any mandate or function prescribed by applicable law, regulation or rule to be discharged by the Committee constituted as the audit committee of an entity such as High Arctic.

3. Organization and Operation

(1) The Committee shall be comprised of a minimum of three (3) members of the Board.

(2) Each of the members of the Committee shall be "unrelated directors", "outside directors" and "financially literate", as such terms are defined from time to time pursuant to the Governance Guidelines of the Toronto Stock Exchange and, to the extent practicable, the Committee shall include at least one member who may reasonably be regarded as a financial expert. In addition, each of the members of the Committee shall be "independent" and "financially literate" as required by Multilateral Instrument 52-110 adopted by the Canadian Securities Administrators ("**CSA**") or any rule or instrument implemented in substitution or addition thereto.

(3) A majority of the members of the Committee shall be residents of Canada.

(4) The Committee shall have the power to appoint its chairman.

(5) Any member of the Committee or the auditors of the Corporation (the "**auditors**") may call a meeting of the Committee upon not less than 48 hours' notice to the other members of the Committee.

(6) The auditors of the Corporation are entitled to receive notice of every meeting of the Committee and, at the expense of the Corporation, to attend and be heard thereat and, if so requested by a member of the Committee, shall attend any meeting of the Committee held during the term of office of the auditors.

(7) The Chief Executive Officer and Chief Financial Officer or their designates shall be available to attend at all meetings of the Committee upon invitation of the Committee.

(8) The Committee shall meet at least four times annually.

(9) A quorum for meetings of the Committee shall be a majority of its members.

(10) Questions arising at any meeting of the Committee shall be decided by a majority of the votes cast.

(11) The rules for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those governing meetings of the Board or as otherwise provided in the By-laws of the Corporation.

(12) Except as set forth herein, the Committee may determine its own rules of procedure.

4. Duties and Responsibilities

In the discharge of its mandate, the Committee shall:

Corporate Information and Internal Control

(1) Review and recommend for approval by the Board, annual and quarterly financial statements, and all financial information in any prospectus, offering memorandum, AIF, management's discussion and analysis ("**MD&A**") or annual report of the Corporation;

(2) Review and make recommendations with respect to information and control systems of High Arctic;

(3) Review and approve all major changes to information and control systems of High Arctic;

(4) Review and approve spending authorities and expenditure approval limits of officers of High Arctic;

(5) Review and approve all determinations made in respect of significant accounting and tax compliance issues;

(6) Review all significant financial, accounting and tax issues in connection with proposed non-recurring events such as mergers, acquisitions or divestitures;

(7) Review and approve all press releases or other publicly circulated documents containing financial information;

(8) In consultation with the auditors, review and monitor the integrity of the financial statements of High Arctic and any formal announcements relating to High Arctic's financial performance, and review significant financial reporting judgments contained therein;

(9) Review and monitor the effectiveness of High Arctic's internal control monitoring function;

(10) Review and monitor the effectiveness of the audit process, taking into consideration applicable professional and regulatory requirements;

Auditors

(11) Make recommendations to the Board in respect of the auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for High Arctic, in respect of the terms of retainer of the auditors and, as determined desirable or necessary, in respect of the replacement of the auditors (subject to shareholder notification and approval);

(12) Review the terms of the auditors' engagement and make recommendations to the Board as to the compensation of the auditors;

(13) Require the auditors to report directly to the Committee;

(14) Oversee the work of auditors engaged for the purposes of preparing or issuing an audit report or performing other audit, review or attest services for High Arctic, including the resolution of disagreements between management and the auditors regarding financial reporting;

(15) Annually, obtain and review a report by the auditors of the Corporation's internal quality control procedures and systems;

(16) Review and make recommendations in respect of any material issues raised by any internal quality control review (or peer review) of High Arctic or by any inquiry or investigation by governmental or professional authorities;

(17) Annually, evaluate the auditors' qualifications, performance and independence;

(18) Review and discuss with the auditors any disclosed relationships or services that may impact the objectivity and independence of the auditors;

(19) Annually, to ensure continuing auditor independence, consider the rotation of the lead audit partner or the auditor itself;

(20) Where there is a change of auditor, review all issues related to the change, including information to be included in the notice of change of auditors (Section 4.11 of National Instrument 51-102 – *Continuous Disclosure Obligations* ("**NI 51-102**"), and the planned steps for an orderly transition;

(21) Review all reportable events, including disagreements, unresolved issues and consultations, as defined in NI 51-102, on a routine basis, whether or not there is a change of auditors;

(22) Develop and implement a policy on the engagement of the auditors to supply non-audit services, taking into account any relevant independence guidance regarding the provision of non-audit services by the auditor;

(23) At each meeting, consult with external auditors, without the presence of management, about the quality of High Arctic's accounting principles, internal controls and completeness and accuracy of High Arctic's financial reports;

(24) Review and pre-approve all audit and audit-related services and the fees and other compensation related thereto, and any non-audit services, provided by High Arctic's external auditors and consider the impact on the independence of the auditors. The pre-approval requirement is waived with respect to the provision of non-audit services if:

   (i) the aggregate amount of all such non-audit services provided to High Arctic constitutes not more than five percent of the total amount of revenues paid by High Arctic to the auditors during the fiscal year in which the non-audit services are provided;

   (ii) such services were not recognized by High Arctic at the time of the engagement to be non-audit services; and

   (iii) such services are promptly brought to the attention of the Committee by High Arctic and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board to whom authority to grant such approvals has been delegated by the Committee.

Provided the pre-approval of the non-audit services is presented to the Committee's first scheduled meeting following such approval, such authority may be delegated by the Committee to one or more independent members of the Committee;

(25) Set hiring policies for partners, employees and former partners and employees of the present and former auditors;

(26) At least annually, separately interview management and the auditors to discuss the relationship between them, especially as regards to the competency, communication, access provided and cooperation displayed in matters relating to the audit and the financial affairs of High Arctic;

(27) Establish procedures for:

(i) the receipt, retention and treatment of complaints received by High Arctic regarding accounting, internal accounting controls, or auditing matters;

(ii) the confidential, anonymous submission by employees of High Arctic of concerns regarding questionable accounting and auditing matters; and

(iii) the proportionate and independent investigation of any matters raised by employees of High Arctic, including the appropriate follow-up action (if any);

(28) Monitor changes to applicable laws, regulations and rules and industry standards and practices with respect to financial reporting;

Audit

(29) Review with management and the auditors the audit plan for the coming year;

(30) Review with management and the auditors any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgments of management that may be material to financial reporting;

(31) Separately interview management and the auditors regarding significant financial reporting issues during the fiscal period and the method of resolution;

(32) Review any problems experienced by the auditors in performing the audit, including any restrictions imposed by management or significant accounting issues in which there was a disagreement with management;

(33) Review annual and quarterly financial statements with management and the auditors (including disclosures under MD&A), in conjunction with the report of all significant variances between comparative reporting periods;

(34) Review the certification process under National Instrument 52-109 adopted by the CSA;

(35) Review and make recommendations as to the auditors' report to management and management's response and subsequent remedy of any identified weaknesses;

Risk Management and Controls

(36) Provide oversight in respect of risk management policies and practices, including the identification of major business risks and the processes and other steps taken to mitigate such risks;

(37) Review and make recommendations as to hedging strategies, policies, objectives and controls;

(38) Review, not less than quarterly, a mark to market assessment of High Arctic's hedge positions and counter party credit risk and exposure;

(39) Review High Arctic's risk retention philosophy and resulting exposure to the Corporation;

(40) Review the adequacy of insurance coverage;

(41) Review loss prevention policies and programs in the context of competitive and operational considerations;

(42) Review and recommend for approval the annual operating and capital budgets of High Arctic and any amendments thereto;

(43) Annually review authority limits for capital expenditures;

(44) Review all pending litigation involving High Arctic and assess the prospective exposure to High Arctic;

(45) Obtain explanations of significant variances with comparative reporting periods; and

(46) Ascertain compliance with covenants under loan agreements.

Other Duties and Responsibilities

The responsibilities, practices and duties of the Committee outlined herein are not intended to be comprehensive. The Board may, from time to time, charge the Committee with the responsibility of reviewing other items of financial, control or risk management nature.

The Committee shall periodically report to the Board decisions taken in exercise of powers conferred herein and the results of reviews undertaken and any associated recommendations.

5. Authority

The Committee shall have all power and authority necessary or desirable to fully and effectively discharge its mandate hereunder and, in that connection and without limitation, the Committee may:

(1) Investigate any corporate activity, in any area, that the Committee considers necessary or advisable, and, for such purposes and the performance of its other responsibilities, the Committee shall have unrestricted access to all personnel records of High Arctic, the auditors and all other advisors to High Arctic and, from time to time, may require the Chief Financial Officer to report to the Committee;

(2) Make any recommendation to the Board, as it considers necessary or advisable, in respect of matters within its mandate, provided, however, that where the Committee intends to make any such recommendation, the recommendation shall first be presented to the Lead Director and, in respect of financial matters, to the auditor for comment before being communicated to the Board, unless the Committee concludes that such action would not be in the best interest of High Arctic and/or the shareholders; and

(3) Engage and obtain the advice of outside advisors if necessary to properly discharge its functions, duties and responsibilities including, without limitation:

   (i) to engage independent counsel and other advisors as it determines necessary to carry out its duties;

(ii) to set and pay the compensation for any advisor employed by the Committee; and

(iii) to communicate directly with the auditors.

6. Limitation

The foregoing is (i) subject to and without limitation of the requirement that in exercising their powers and discharging their duties the members of the Board act honestly and in good faith with a view to the best interests of the Corporation; and (ii) subject to and not in expansion of the requirement that in exercising their powers and discharging their duties the members of the Board exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.