



## Management's Discussion and Analysis For the Three and Six Months Ended June 30, 2016 and 2015

This Management's Discussion and Analysis ("MD&A") is a review of the results of operations, liquidity and capital resources of High Arctic Energy Services Inc. ("High Arctic" or the "Corporation"). The MD&A is dated August 12, 2016 and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2016 and 2015 (the "Financial Statements") and the audited consolidated financial statements for the years ended December 31, 2015 and 2014. Additional information relating to High Arctic is available under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com). All amounts are expressed in millions of Canadian dollars, unless otherwise noted, and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned that this MD&A contains certain forward-looking information. Please refer to the end of this MD&A for the Corporation's disclaimer on forward-looking information and statements. The definitions of certain non-IFRS financial measures are included on page 15 under the "non-IFRS Measures" section.

### Select Comparative Financial Information

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

\$ millions (except per share amounts)	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	2016	2015	% Change
<b>Revenue</b>	43.5	48.7	(11%)	98.2	93.4	5%
<b>EBITDA<sup>(1)</sup></b>	14.7	13.4	10%	36.0	22.9	57%
<b>Adjusted EBITDA<sup>(1)</sup></b>	15.1	14.1	7%	36.9	24.5	51%
<b>Adjusted EBITDA % of Revenue</b>	35%	29%	21%	38%	26%	46%
<b>Operating earnings</b>	9.4	10.2	(8%)	25.1	17.1	47%
<b>Net earnings</b>	6.3	7.2	(13%)	17.5	12.0	46%
per share (basic and diluted) <sup>(2)</sup>	0.12	0.13	(8%)	0.33	0.22	50%
<b>Funds provided from operations<sup>(1)</sup></b>	13.4	10.5	28%	32.3	18.7	73%
per share (basic) <sup>(2)</sup>	0.25	0.19	32%	0.61	0.34	79%
per share (diluted) <sup>(2)</sup>	0.25	0.19	32%	0.60	0.33	82%
<b>Dividends</b>	2.6	2.8	(7%)	5.2	5.5	(5%)
per share <sup>(2)</sup>	0.05	0.05	-	0.10	0.10	-
<b>Capital expenditures</b>	2.3	15.5	(85%)	7.4	36.6	(80%)

  

	As at		
	June 30, 2016	December 31, 2015	% Change
<b>Working Capital</b>	49.4	43.2	14%
<b>Total assets</b>	236.2	244.1	(3%)
<b>Total non-current financial liabilities</b>	1.5	6.6	(77%)
<b>Net cash, end of period<sup>(1)</sup></b>	37.7	11.5	228%
<b>Shareholders' Equity</b>	200.0	201.2	(1%)
<b>Shares outstanding – end of period<sup>(2)</sup></b>	52.6	54.4	(3%)

(1) Readers are cautioned that EBITDA, Adjusted EBITDA, Funds provided from operations, net cash and working capital do not have standardized meanings prescribed by IFRS – see "non IFRS Measures" on page 15.

(2) The restricted shares held by a trustee under the Executive and Director Incentive Share Plan are included in the shares outstanding. The number of shares used in calculating the net earnings per share amounts is determined differently as explained in the Financial Statements.

## Corporate Profile

High Arctic operates in two geographic areas within one operating segment which provides oilfield services to exploration and production companies operating in Canada and Papua New Guinea. High Arctic is a publicly traded company listed on the Toronto Stock Exchange under the symbol "HWO".

### Papua New Guinea ("PNG")

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

### Canada

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

## Highlights

High Arctic's contracted heli portable drilling rig operations in PNG combined with ongoing cost management and a favorable U.S. dollar exchange rate have positively contributed to the growth in High Arctic's adjusted EBITDA to date in 2016. These results have been achieved in an otherwise challenging global market for the oil and gas industry, which is adapting to an extended low commodity price environment.

### Second Quarter 2016:

- Contribution from the second new contracted heli-portable drilling rig which was added to High Arctic's fleet in the third quarter of 2015 partially offset lower activity levels for the Corporation's remaining operations in PNG and Canada, resulting in an 11% decrease in revenue to \$43.5 million in the quarter from \$48.7 million in the second quarter of 2015.
- Margin contribution from the new drilling rigs in PNG and proactive cost management initiatives offset lower revenues, resulted in a 7% increase in adjusted EBITDA to \$15.1 million from \$14.1 million in the second quarter of 2015.
- The Corporation received an interim extension of its drilling and related services contract for Rig 104 until October 31, 2016 and remains in discussions with its customer for renewals of its contracts for Rigs 103 and 104. Consistent with steps being undertaken throughout the global oilfield services industry during the current downturn in the market, the Corporation's customer has indicated that they will canvas the market, which is expected to result in competitive bids being received for these contracts. Due to the current weakness in the global oilfield services industry, High Arctic anticipates material price concessions will be made for these contracts which would be partially offset by reduced operating costs.
- A total of \$6.7 million was returned to shareholders during the quarter through \$4.1 million in share repurchases under the Corporation's normal course issuer bid ("NCIB") and \$2.6 million in dividends (\$0.05 per share).
- High Arctic received the International Association of Drilling Contractors award for the Australasia Onshore region for the best safety statistics for 2015.

**Year to Date 2016:**

- Full contribution from High Arctic's two contracted drilling rigs and an 8% increase in the U.S. dollar exchange rate has offset lower activity in Canada and the Corporation's remaining PNG operations resulting in a 5% increase in revenue to \$98.2 million in the first six months of 2016 versus \$93.4 million in the comparable period in 2015.
- Additional margin contribution from the Corporation's new rigs increased adjusted EBITDA by 51% to \$36.9 million year to date in comparison to \$24.5 million earned in the first six months of 2015.
- High Arctic has distributed a total of \$11.7 million to shareholders year to date via \$6.5 million in share buybacks under the Corporation's NCIB and \$5.2 million in dividends which represents 16% of funds provided from operations year to date.

Increased amortization expense associated with the capital cost of the two rigs added to High Arctic's fleet in 2015 partially offset High Arctic's increased EBITDA in the second quarter, resulting in net earnings of \$6.3 million (\$0.12 per share) in the quarter versus \$7.2 million (\$0.13 per share) in the second quarter of 2015. Year to date, the EBITDA contribution from the two owned drilling rigs offset increased amortization expense associated with the rigs, which resulted in net earnings increasing 46% year to date to \$17.5 million (\$0.33 per share) from \$12.0 million (\$0.22 per share) in the first six months of 2015. Earnings in the comparative period of 2015 only included four months of income contribution from Rig 115 and none from Rig 116 as this rig did not enter the country until August 2016.

High Arctic continues to maintain a strong balance sheet exiting the quarter with a positive net cash position of \$37.7 million, with no amounts outstanding on its \$45.0 million credit facilities. Funds provided from operations was \$13.4 million in the quarter and \$32.3 million year to date, an increase of 28% and 73%, respectively, over the comparative periods in 2015. High Arctic's strong balance sheet provides a total potential liquidity of \$82.7 million to assist the Corporation in pursuing growth opportunities which may arise during the current industry downturn.

**Revenue**

(\$ millions)	Three Months Ended June 30				Six Months Ended June 30			
	2016	2015	Change	%	2016	2015	Change	%
<b>Revenue</b>								
PNG	38.6	42.3	(3.7)	(9%)	86.8	77.5	9.3	12%
Canada	4.9	6.4	(1.5)	(23%)	11.4	15.9	(4.5)	(28%)
<b>Total</b>	<b>43.5</b>	<b>48.7</b>	<b>(5.2)</b>	<b>(11%)</b>	<b>98.2</b>	<b>93.4</b>	<b>4.8</b>	<b>5%</b>

Consolidated revenue decreased by 11% to \$43.5 million in the quarter from \$48.7 million in the second quarter of 2015. This decrease was driven by reduced activity in PNG and Canada which was partially offset by revenue earned by the Corporation's second drilling rig which was added to the fleet in the third quarter of 2015. On a year to date basis, the revenue contribution from the two new drilling rigs throughout the first six months of 2016, combined with an 8% increase in the average U.S. dollar to Canadian dollar exchange rate, offset a 28% decline in Canadian revenues and lower contribution from the Corporation's other PNG drilling and rental activities.

**Operations in PNG**

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

Following the drilling of Antelope 6 in the first quarter of 2016, Rig 115 was de-mobilized from the well location to a storage location in Port Moresby in the second quarter. The rig generated its contracted moving or standby rates during the second

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quarter and commenced preparations for mobilization to Antelope 7 in July 2016. Rig 116 remains on standby in Port Moresby, with its two year contract term anticipated to commence before the end of 2016.

Rig 103 was active during the quarter drilling the first of two wells in the Western Province. Activities in the quarter for Rig 104 were focused on mobilizing the rig to a high elevation drilling location in Muruk for a well which is scheduled to commence drilling in the fourth quarter of 2016. Late in the quarter, operations were suspended by the customer to wait for the passing of the regional rainy season and a small crew was retained to secure the rig and keep it in operable condition.

The three year operations management contracts for Rigs 103 and 104 were extended during the quarter to expire on October 31, 2016 for Rig 104 and upon completion of drilling the second well in the Western Province for Rig 103. Demobilization from this well is anticipated to be completed during the fourth quarter.

The contracted revenue for Rigs 115 and 116 partially offset reduced revenues from the lower activity on Rig 104 and lack of utilization of the pre-spud drilling equipment for Rigs 103 and 104. In addition, reduced support requirements implemented by a customer in June 2015 have resulted in lower operations support revenue. Revenue for the Corporation's drilling operation decreased 5% during the quarter to \$33.9 million versus \$35.5 million in the comparative quarter of 2015. Year to date, the full contribution from Rigs 115 and 116 has resulted in a 16% increase in drilling revenue to \$74.9 million versus \$64.7 million generated in the first six months of 2015.

Lower drilling activity in the quarter and the completion of matting rental contracts in the first quarter of 2016 resulted in a 30% decrease in associated rental revenue in the quarter to \$4.7 million versus \$6.8 million in the second quarter of 2015. The Corporation's rental fleet includes approximately 10,000 Dura-Base® mats, of which an average of 4,200 mats were under contract during the quarter. Additional rental revenues are also generated from heli-portable camps and various trucks, cranes and other oilfield equipment, which are tied to drilling activity. In addition, certain equipment is now being included in the drilling contract rates which were previously included in rental revenue prior to June 2015.

Year to date, lower contracted rental revenues were partially offset by \$1.0 million in non-recurring income for damaged and lost mats upon a contract expiry in the first quarter resulting in a 7% decline in rental revenue to \$11.9 million in the first six months versus \$12.8 million in the comparative period in 2015.

The lower drilling and rentals activity in the quarter resulted in an overall 9% decrease in PNG revenues to \$38.6 million from \$42.3 million in the second quarter of 2015. Year to date, the full six month contribution from rigs 115 and 116 allowed PNG revenues to increase 12% to \$86.8 million in the first six months of 2016 versus \$77.5 million in the comparative period in 2015.

## **Operations in Canada**

Seasonal spring breakup conditions combined with continued low industry activity levels in Canada driven by low commodity prices resulted in a 24% decline in revenue in the quarter to \$4.9 million versus \$6.4 million in the second quarter of 2015. Industry drilling rig activity declined 53% in the quarter compared to the second quarter of 2015, resulting in the lowest quarterly industry rig utilization in the Western Canadian Sedimentary Basin on record (source: CAODC). While High Arctic's Canadian operations are not directly tied to the industry's drilling activity, the decline in activity provides an indication of the extent of the slowdown being experienced across the industry sector.

In response to lower industry activity levels, High Arctic has reduced its marketed snubbing fleet to 8 rigs in the quarter from its total fleet of 18 units. The remaining un-marketed units have been parked and will be reactivated as industry activity improves. Utilization for High Arctic's snubbing units was 16% overall (36% on marketed units) during the quarter versus 18% (35% on marketed units) in the second quarter of 2015. Equipment utilization is determined by dividing total operating hours generated in the period over the total available hours based on a ten hour day. The reduced activity levels, combined with lower average pricing, generated a 9% decline in snubbing revenue to \$3.7 million in the second quarter of 2016 versus \$4.0 million in the comparative 2015 quarter.

On a year to date basis, utilization for High Arctic's snubbing units is 18% (40% on marketed units) versus 24% (46% on marketed units) in the comparable period in 2015. The sharp decline in activity since the first quarter of 2015 has resulted in a 26% decrease in snubbing revenue year to date to \$8.3 million from \$11.3 million in the first six months of 2015.

Lower activity and pricing also impacted the Corporation's nitrogen and equipment rental services which experienced a 49% decline in revenue to \$1.2 million in the quarter from \$2.4 million in 2015. Nitrogen services are often supplied in conjunction with snubbing activities; however, High Arctic has also been pursuing opportunities to provide nitrogen services for industrial and pipeline maintenance activities and completed two such jobs in the quarter. Year to date, nitrogen and equipment rental revenue is down 35% to \$3.1 million from \$4.7 million in the first half of 2015.

While lower activity levels and pricing pressures are anticipated to continue in 2016, the Corporation has continued to experience higher levels of activity with its deeper capacity snubbing units. Operations commenced for the Corporation's fully-guided 170k snubbing unit that was added to the fleet in the first quarter of 2016, with operations for the Corporation's new 285k high capacity four post snubbing commencing subsequent to quarter end in early August. This unit is a new design that is being leased by High Arctic under a one year lease which will provide the Corporation with an opportunity to assess the technical capabilities of the rig and its market acceptance.

## Oilfield Services Expense and Margin

(\$ millions)	Three Months Ended June 30				Six Months Ended June 30			
	2016	% <sup>(1)</sup>	2015	% <sup>(1)</sup>	2016	% <sup>(1)</sup>	2015	% <sup>(1)</sup>
<b>Oilfield services expenses</b>								
Personnel costs	9.7	22%	12.6	26%	22.4	23%	25.8	28%
Drilling rig and other rental costs	8.3	19%	11.0	23%	17.2	18%	22.0	24%
Material and supplies cost	5.6	13%	5.7	12%	11.2	11%	10.1	11%
Equipment operating and maintenance costs	1.3	3%	1.6	3%	3.0	3%	3.5	4%
Other	0.5	1%	0.2	0%	0.8	1%	0.4	0%
<b>Total oilfield services expenses</b>	<b>25.4</b>	<b>58%</b>	<b>31.1</b>	<b>64%</b>	<b>54.6</b>	<b>56%</b>	<b>61.8</b>	<b>66%</b>
<b>Oilfield services margin</b>	<b>18.1</b>	<b>42%</b>	<b>17.6</b>	<b>36%</b>	<b>43.6</b>	<b>44%</b>	<b>31.6</b>	<b>34%</b>

<sup>(1)</sup> Operating costs as a % of total revenue.

Cost reduction initiatives completed during 2015 and 2016 allowed High Arctic to reduce its operating costs as a percentage of revenue to 58% in the quarter and 56% year to date from 64% and 66% in the comparable periods in 2015. The decline in operating costs positively impacted oilfield services margins which increased to \$18.1 million (42% of revenue) in the quarter from \$17.6 million (36% of revenue) in the second quarter of 2015. Year to date, higher revenue and lower operating costs allowed oilfield services margin to increase to \$43.6 million (44% of revenue) from \$31.6 million (34% of revenue) in the first six months of 2015.

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

- Rig 116 was not operating and was earning standby revenue; therefore, revenue was being generated with minimal operating costs, which skewed margins higher than they would otherwise have been under normal operations.
- In response to lower activity levels, management has undertaken a number of cost reduction initiatives which have resulted in lower operating costs in the Corporation's Canadian and PNG operations. High Arctic maintains a scalable cost infrastructure wherever possible which adjusts to variable activity levels and provides substantial operating leverage when activity changes; and

- A reduction in drilling rig rental costs as a percentage of revenue as High Arctic has full ownership of the two new heli-portable drilling rigs added in PNG. Partially offsetting this lower cost was an increase in costs of material and supplies associated with operating these owned rigs. Maintenance costs will also be expected to increase; however, because the rigs are new, there was minimal impact to maintenance costs associated with these rigs in 2016.

## General and Administration

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	Change	2016	2015	Change
<b>General and administration</b>	<b>3.0</b>	3.5	(14%)	<b>6.7</b>	7.1	(6%)
Percent of revenue	<b>7%</b>	7%		<b>7%</b>	8%	

General and administrative costs declined in the quarter and year to date relative to the comparable periods in 2015 due to lower variable compensation plan costs as well as staffing and other cost reductions in the Corporation's Canadian operations to coincide with reduced activity levels. On a percentage of revenue basis, general and administrative costs remain consistent at 7% for the quarter and year to date, which decreased from 8% in the first six months of 2015.

## Amortization

Amortization cost increased to \$5.4 million in the quarter from \$3.5 million in second quarter of 2015. This increase is associated with the two new drilling rigs and rental equipment added to High Arctic's fleet in 2015. These capital additions also resulted in an increase in amortization expense year to date to \$11.2 million from \$6.4 million in the comparative period in 2015.

## Share-based Compensation

The decrease in share-based compensation expense to \$0.3 million in the second quarter and \$0.6 million year to date from \$0.4 million and \$1.0 million in the respective periods in 2015, is a result of a higher number of options granted in 2014 versus 2015. The amortization costs associated with the Corporation's option grants is higher in the first year subsequent to the grant versus future years. 150,000 stock options were granted in the first quarters of both 2016 and 2015.

## Foreign Exchange Transactions

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

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

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

The U.S. dollar declined in the second quarter relative to the first quarter of 2016; however, it remained strong relative to the Canadian dollar, with an average exchange rate of 1.288 during the second quarter of 2016 (2015 – 1.229). This strong U.S. dollar benefited the Corporation during the quarter as the majority of the Corporation's PNG business is conducted in U.S. dollars.

As at June 30, 2016, the U.S. dollar exchange rate was 1.292 versus 1.384 as at December 31, 2015. This decline in exchange rate has resulted in a translation loss of \$10.1 million recorded in other comprehensive income for the six months ended June 30, 2016 (\$0.7 million for the three months ended June 30, 2016).

The fluctuation in exchange rates year to date also resulted in a \$0.4 million foreign exchange loss being recorded on various foreign exchange transactions (\$0.1 million for the three months ended June 30, 2016). The Corporation does not currently hedge its foreign exchange transactions or exposure.

## Interest and Finance Expense

While the Corporation continues to maintain a net consolidated positive cash balance, there are occasions when temporary advances are made on High Arctic's corporate credit facilities to meet Canadian cash needs when foreign funds are not immediately available. In addition, the Corporation incurs fees to maintain its existing facilities. Interest on these temporary borrowings and fees amounted to \$0.1 million in the quarter and \$0.2 million year to date, which is consistent with 2015.

## Income Taxes

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	Change	2016	2015	Change
<b>Net earnings before income taxes</b>	<b>9.2</b>	9.8	(0.6)	<b>24.6</b>	16.3	8.3
Current income tax expense	<b>1.6</b>	3.5	(1.9)	<b>4.4</b>	5.3	(0.9)
Deferred income tax expense	<b>1.3</b>	(0.9)	2.2	<b>2.7</b>	(1.0)	3.7
<b>Total income tax expense</b>	<b>2.9</b>	2.6	0.3	<b>7.1</b>	4.3	2.8
Percent of net earnings before income taxes	<b>32%</b>	27%		<b>29%</b>	26%	

The Corporation's effective tax increased to 29% for the first six months of 2016 from 26% in the first half of 2015. This increase was primarily related to higher taxable income generated from PNG.

The Corporation's activities in Canada are not subject to current income taxes due to its ability to utilize various tax pools and losses carried forward from prior years. As a result of these existing tax pools, the Corporation has not recorded any tax expense for Canada during the quarter. As at June 30, 2016, the Corporation had approximately \$114.0 million in total tax pools available for use in Canada, of which High Arctic has recorded a deferred tax asset of \$5.0 million on the Corporation's balance sheet.

In addition to the statutory income taxes applicable on net earnings generated in the Corporation's subsidiaries, withholding taxes may apply to certain distributions, such as dividends, made from High Arctic's subsidiary companies to the parent company. No distributions that are subject to withholding taxes were made during the quarter. As at June 30, 2016, the Corporation's subsidiaries had approximately \$94.8 million in undistributed earnings which could be subject to dividend withholding taxes. The average dividend withholding tax rate is estimated to be 17%. No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings as the Corporation controls the relevant entities and has no committed plans to repatriate the earnings in the foreseeable future.

## Other Comprehensive Income

In addition to the impact of the \$10.1 million year to date foreign currency transaction losses for foreign operations discussed above, \$2.6 million in gains on short term investments has been recorded in other comprehensive income year to date, which increased \$1.3 million during the second quarter. These gains relate to an increase in the market value of strategic investments made by the Corporation in select publicly traded oilfield service companies while it evaluates potential acquisition opportunities. Included in the \$1.3 million gain recognized in the second quarter was \$0.1 million realized from proceeds of \$0.5 million on the sale of short term investments.

## Liquidity and Capital Resources

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	Change	2016	2015	Change
Cash provided by (used in):						
Operating activities	25.8	18.5	7.3	46.9	31.6	15.3
Investing activities	(1.7)	(17.9)	16.2	(6.8)	(38.6)	31.8
Financing activities	(6.8)	(2.9)	(3.9)	(15.9)	(7.2)	(8.7)
Effect of exchange rate changes	(0.1)	(0.5)	0.4	(2.0)	2.6	(4.6)
Increase (decrease) in cash and cash equivalents	17.2	(2.8)	20.0	22.2	(11.6)	33.8

  

	As At			
	June 30, 2016	December 31, 2015	Change	%
Working capital <sup>(1)</sup>	49.4	43.2	6.2	14%
Working capital ratio <sup>(1)</sup>	2.6:1	2.3:1	0.3:1	13%
Net cash <sup>(1)</sup>	37.7	11.5	26.2	228%
Undrawn availability under credit facilities	24.0	21.5	2.5	12%

<sup>(1)</sup> See non-IFRS measures

As at June 30, 2016, the Corporation continued to maintain a strong balance sheet with no outstanding debt and significant financial resources available via working capital, cash and undrawn availability under its credit facilities.

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

### Operating Activities

The growth in EBITDA resulted in a 28% increase in funds provided from operations in the quarter to \$13.4 million from \$10.5 million in the second quarter of 2015. Year to date, funds provided from operations has increased 73% to \$32.3 million from \$18.7 million in the first six months of 2015. After working capital adjustments, net cash generated from operating activities year to date is \$46.9 million compared to \$31.6 million for the first six months of 2015.

### Investing Activities

High Arctic incurred \$2.3 million in capital expenditures in the second quarter and \$7.4 million year to date related to the purchase of various rental equipment items in Canada and PNG and a 170k standalone snubbing rig. In addition to the \$7.4 million incurred in cash expenditures, \$2.5 million was invested through a capital lease to secure a new 285k four post snubbing unit. A 120k standalone snubbing unit, valued at \$0.3 million, was exchanged as partial consideration for the purchase of the 170k unit.

Proceeds of \$0.6 million were generated from the partial sale of the Corporation's short term investments and redundant operating assets during the second quarter of 2016.

### Financing Activities

During the second quarter of 2016, the Corporation repurchased \$4.1 million in shares under the Corporation's NCIB and distributed \$2.6 million in dividends bringing the total year to date repurchases under the NCIB to \$6.5 million and \$5.2 million in dividend payments. In the first quarter of 2016, the Corporation repaid \$4.0 million that had been outstanding on its credit facility.



## Credit Facility

High Arctic's credit facility consists of a \$40.0 million revolving loan and a \$5.0 million revolving operating loan. This facility matures on August 31, 2017, is renewable at the lender's consent and is secured by a general security agreement over the Corporation's assets. To the extent the credit facility is not renewed, any outstanding balance becomes immediately due and payable on the maturity date. At June 30, 2016, no balance was outstanding under the Corporation's credit facility.

The available amount under the \$40.0 million revolving loan facility is limited to 65% of the net book value of the Canadian fixed assets plus 65% of the net book value of fixed assets in High Arctic Energy Services (Singapore) Pte. Ltd. limited to export guarantees provided by Export Development Canada ("EDC"), less priority claims. The amount available to draw under the \$5.0 million revolving operating loan is limited to 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement. As at June 30, 2016, no guarantee had been executed with EDC and the total credit available to draw under the facility was approximately \$24.1 million.

The Corporation's loan facilities are subject to three financial covenants, which are reported to the lender on a quarterly basis: Funded Debt to EBITDA; Fixed Charge Coverage Ratio; and Current Ratio. There have been no changes to these financial covenants subsequent to December 31, 2015 and the Corporation remains in compliance with the financial covenants under its credit facility as at June 30, 2016.

## Contractual Obligations and Contingencies

High Arctic's contractual financial obligations as at June 30, 2016 are summarized as follows:

(\$ millions)	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	16.3	-	-	-	16.3
Dividends payable	0.9	-	-	-	0.9
Operating and financial lease commitments	2.9	1.0	0.1	-	4.0
<b>Total</b>	<b>20.1</b>	<b>1.0</b>	<b>0.1</b>	<b>-</b>	<b>21.2</b>

## Litigation

The Corporation is party to legal actions arising in the normal course of business. A lawsuit and additional third party notices were previously filed against the Corporation, alleging that a group of defendants including the Corporation breached their contract for the provision of well planning, drilling, completion, snubbing and/or testing services. The plaintiff and third parties claimed damages in the amount of \$22.0 million. The Corporation denied the allegations and filed statement of defences for the claims. Subsequent to quarter end, the parties entered into a settlement agreement with no material impact to the Corporation.

## Inventory

As part of the Corporation's contractual rig management and operations, the Corporation has been supplied an inventory of spare parts with a value of U.S. \$5.5 million by a customer in PNG. The inventory is owned by the customer and has not been recorded on the books of High Arctic. At the end of the contract, the Corporation must return an equivalent inventory to the customer. The Corporation believes it currently has sufficient inventory on hand to meet that obligation and accordingly no provision has been made for any potential shortfall.

## Outstanding Share Data

The Corporation's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares. Directors, officers and certain employees have been granted stock options and incentive shares under the Corporation's approved equity compensation plans. As at August 12, 2016, there were 52,613,169 issued and outstanding common shares, including 52,800 shares held in the Executive and Director Share Incentive Plan, and 3,249,800 options were outstanding at an average exercise price of \$3.86.

On January 6, 2016, High Arctic renewed its NCIB for a further twelve months, from January 12, 2016 to January 11, 2017. As approved by the Toronto Stock Exchange ("TSX"), the Corporation may purchase up to 2,772,136 common shares, representing approximately 10% of the public float of High Arctic. As of August 12, 2016, 1,911,400 common shares had been purchased in 2016 under the NCIB. All common shares acquired under the NCIB are cancelled.

## Quarterly Financial Review

### Selected Quarterly Consolidated Financial Information (Three Months Ended)

The following is a summary of selected financial information of the Corporation for the last eight completed quarters:

\$ (millions, except per share amounts)	2016		2015				2014	
	Q2	Q1	Q4 <sup>(1)</sup>	Q3 <sup>(1)</sup>	Q2	Q1	Q4	Q3
<b>Revenue</b>	43.5	54.7	58.0	58.5	48.7	44.7	46.2	41.3
<b>Adjusted EBITDA</b>	15.1	21.8	20.8	18.7	14.1	10.4	13.3	9.8
<b>Net earnings</b>	6.3	11.2	9.7	10.2	7.2	4.8	8.5	3.7
per share (basic and diluted)	0.12	0.21	0.18	0.18	0.13	0.09	0.15	0.07
<b>Funds provided from operations</b>	13.4	18.9	19.8	14.3	10.5	8.2	12.8	7.6

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

Various factors have affected the quarterly profitability of the Corporation's operations in both PNG and Canada. In response to customer demand for increased drilling services in PNG, the Corporation added two new drilling rigs to its fleet in the first and third quarters of 2015 which positively increased the Corporation's PNG revenue and EBITDA. The revenue contribution from the new rigs was partially offset in the second quarter of 2016 due to lower activity levels for the rigs operated by High Arctic on behalf of one of its customers. PNG rental revenue has also declined in 2015 and 2016 due to contract expiries as well as some equipment now being captured under the Corporation's drilling contract revenue. Changes in the value of the U.S. dollar as compared to the Canadian dollar have also contributed to fluctuations in revenues, earnings and funds provided from operations.

The major decline in oil prices has significantly decreased drilling and completion activities in Canada, resulting in lower Canadian revenues and decreased profit throughout 2016 and 2015. The Corporation's Canadian operations are also impacted by seasonal conditions whereby frozen ground during the winter months tends to provide an optimal environment for drilling activities and consequently the first quarter is typically the strongest. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. This period is generally referred to as spring break-up. Road bans, which are generally imposed in the spring, restrict the transportation of heavy equipment onto customer locations which reduces demand for services in the Canadian operation and, therefore, the second quarter is generally the weakest quarter of the year for the Corporation's operations in Canada. The spring of 2016 began in early March, much earlier than normal, and resulted in lower than anticipated activity levels for the quarter. The spring of 2015 was unusually dry in Western Canada and the Corporation was able to generate higher than expected revenues.

## Industry Indicators and Market Trends in PNG

The following table provides information for the last eight quarters to assist with the understanding of the PNG oilfield services industry and the effect that commodity prices have on industry activity levels. In addition, the Corporation's international financial results are impacted by fluctuations in the U.S. dollar to Canadian dollar exchange rate. Commodity prices have been higher in PNG than in Canada but have also experienced significant decreases.

	2016		2015				2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<b>Oil and natural gas prices</b> Average for the period								
Brent Crude Oil (US \$/bbl)	\$47	\$35	\$45	\$51	\$64	\$55	\$77	\$103
Japan LNG (U.S.\$/mmbtu)	\$6.08	\$7.95	\$9.03	\$9.23	\$9.18	\$14.26	\$15.70	\$15.37
US/Canadian dollar exchange rate	1.29	1.37	1.34	1.31	1.23	1.24	1.14	1.09

The Corporation's PNG activity is based on longer term, U.S. dollar denominated contracts and therefore is less affected over the short term by volatility in oil and gas prices. The U.S./Canadian dollar exchange rate has strengthened in 2016 and 2015 relative to the levels realized in 2014. The strong U.S. dollar relative to the Canadian dollar has benefited the Corporation's financial results in 2016 and 2015.

Activity levels for the Corporation's major customers in PNG is less dependent on short term fluctuations in oil and gas prices and instead is based on long term decisions, particularly with their significant interest in large scale LNG projects both on-stream and in development. Pricing for oil and natural gas production in PNG is generally tied to world prices such as Brent Crude and Asian LNG.

## Industry Indicators and Market Trends in Canada

The following table provides information for the last eight quarters to assist with the understanding of the Canadian oilfield services industry and the effect that commodity prices have on industry activity levels.

	2016		2015				2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<b>Oil and natural gas prices</b> Average for the period								
West Texas Intermediate (US \$/bbl)	\$46	\$33	\$42	\$46	\$58	\$49	\$73	\$97
Canadian Light Sweet Oil (Cdn \$/bbl)		\$41.22	\$52.55	\$55.09	\$68.88	\$53.28	\$74.38	\$97.71
AECO (C\$/Mmbtu)	\$1.42	\$1.83	\$2.48	\$2.92	\$2.67	\$2.75	\$3.63	\$4.03
<b>Other industry indicators</b>								
Well completions in Western Canada <sup>(1)</sup>	991	801	1,165	1,398	654	2,075	3,332	2,706
Gas well drilling in Western Canada <sup>(1)</sup>	215	334	420	300	185	577	807	351
Average drilling rig utilization rates <sup>(1)</sup>	7%	22%	22%	24%	13%	37%	47%	47%

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

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

## Outlook

High Arctic continues to benefit from revenue generated under term contracts in PNG, which has assisted the Corporation in managing through the current downturn in the global oilfield services market. PNG's vast reserves of natural gas are some of the most competitive globally, which continues to attract investment in these projects by some of the world's largest oil and gas exploration and development companies. This is evidenced through the recent series of proposed corporate transactions which has culminated in ExxonMobil making a bid to purchase InterOil. High Arctic is encouraged by the significant investments being made by major oil and natural gas exploration and development companies in PNG and believes such investments support the expectation of continued long-term development of PNG's natural gas resources. Nonetheless, the downturn in world energy markets is being reflected in activity levels and pricing expectations in PNG along with the rest of the global oilfield services market.

Rigs 115 and 116 continue to operate under take-or-pay contracts, with Rig 115 currently mobilizing to drill the Antelope 7 well. This rig is anticipated to be active for the remainder of 2016 and into early 2017. The take-or-pay contract for Rig 115 is scheduled to expire in June 2017, and the two year take-or-pay contract for Rig 116 is anticipated to commence before the end of 2016.

Rig 103 is currently completing a drilling program for a customer in the Western Province of PNG which is anticipated to be completed in the fourth quarter of 2016. Mobilization of Rig 104 to a high elevation location in Muruk is currently suspended, as planned by the customer, in order to avoid potential mobilization challenges associated with seasonal high rain fall in the area of activity. Nominal revenue amounts are anticipated to be generated during this stand-down period as minimal operation support services will be provided.

The contract for Rig 104 is currently extended until October 31, 2016 with the extension period on Rig 103 ending once the rig completes demobilisation from its current well site. Management continues discussions with its customer on contract renewals for Rigs 103 and 104. Consistent with steps being undertaken throughout the global oilfield services industry during the current downturn in the market, the Corporation's customer has indicated that they will canvas the market, which is expected to result in competitive bids being received for these contracts. Through this process, High Arctic anticipates material pricing concessions will be made for these contracts which would be partially offset by reduced operating costs.

Demand for the Corporation's rental equipment and mats is anticipated to continue to coincide with the drilling activity in PNG. Management continues to evaluate new markets for the expansion and redeployment of non-contracted mat inventory, with an initial small trial of matting rentals in Japan scheduled for the fourth quarter.

In Canada, lower industry activities continue to impact High Arctic's operating results. However, a large percentage of the Corporation's Canadian activity is with larger exploration and development companies who have maintained a higher level of activity relative to smaller oil and gas companies in the current low industry activity cycle. Heavy rainfall in July negatively impacted field activities during the month; however, activity has begun to increase in August and management is cautiously optimistic that further significant weakening in the Canadian market is limited.

While High Arctic's contracted status in PNG, continued delivery of high quality service and proactive cost management have provided positive EBITDA performance in a period of reduced activity, recent delays in customer drilling programs and a further strengthening of the Canadian dollar relative to the US dollar could soften the financial contribution from the Corporation's PNG operations in upcoming quarters. Additionally, further capital budget reductions for the Corporation's customers may result in further utilization and rate reductions in Canada. Management will continue to monitor and proactively adapt to changes in the business environment in order to mitigate the negative impacts that may be caused by lower industry utilization levels. High Arctic's strong balance sheet positions the Corporation well to continue managing through the industry downturn and to potentially capitalize on growth opportunities.

## Financial Risk Management

### Credit Risk

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

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

The Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation provides services to four large multinational/regional customers in PNG (2015 – two) which individually accounted for greater than 10% of its consolidated revenues during the six months ended June 30, 2016. Sales to these four customers were approximately \$34.4 million, \$14.7 million, \$16.7 million and \$19.5 million respectively for the six months ended June 30, 2016 (2015 - \$32.7 million, \$40.5 million, nil and \$0.7 million). As at June 30, 2016, these four customers represented 6%, 32%, 4% and 37%, respectively, of outstanding accounts receivable (December 31, 2015 – three customers represented a total of 80%). Management has assessed the four customers as creditworthy and the Corporation has had no history of collection issues with these customers.

The Corporation's accounts receivable are aged as follows:

<b>Days outstanding:</b>	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Less than 31 days	18.2	23.8
31 to 60 days	0.9	12.6
61 to 90 days	0.1	5.1
Greater than 90 days	0.4	1.6
Allowance for doubtful accounts	(0.3)	(0.7)
<b>Total</b>	<b>19.3</b>	<b>42.4</b>

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

### Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Corporation seeks to manage its financing based on the results of these processes.

### Market Risk

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

### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk as its long-term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. As at June 30, 2016, no balance was outstanding on the Corporation's credit facilities.

### Foreign exchange rate risk

Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results. The majority of the Corporation's international revenue and expenses are transacted in U.S. dollars and the Corporation does not actively engage in foreign currency hedging. For the six months ended June 30, 2016, a \$0.01 change in the value of the Canadian dollar relative to the U.S. dollar would not have resulted in a material change in net earnings for the year as a result of changes in foreign exchange.

The Corporation's financial instruments have the following foreign exchange exposure at June 30, 2016:

(millions)	U.S. Dollar <sup>(1)</sup>	PNG Kina <sup>(2)</sup>	Australian Dollar <sup>(3)</sup>
Cash and cash equivalents	25.3	2.7	0.4
Trade and other receivables	10.5	5.9	-
Trade and other payables	(8.2)	(35.5)	(0.2)
<b>Total</b>	<b>27.6</b>	<b>(26.9)</b>	<b>0.2</b>

(1) As at June 30, 2016, one U.S. dollar was equivalent to 1.2917 Canadian dollars.

(2) As at June 30, 2016, one PNG Kina was equivalent to 0.3160 Canadian dollars.

(3) As at June 30, 2016, one Australian dollar was equivalent to 0.9670 Canadian dollars.

### Commodity price risk

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

### Other price risk

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

## Critical Accounting Estimates and Judgments

There have been no changes in High Arctic's critical accounting estimates in the six months ended June 30, 2016. Further information on the Corporation's critical accounting policies and estimates can be found in the notes to the annual consolidated financial statements and MD&A for the year ended December 31, 2015.

## Changes in Accounting Policies

On January 1, 2016, the Corporation adopted, retroactively, IFRS 9, "*Financial Instruments*" ("IFRS 9"). IFRS 9 replaces International Accounting Standard 39, "*Financial Instruments: Recognition and Measurement*." IFRS 9 is effective for years beginning on or after January 1, 2018, however, early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The early adoption of IFRS 9 did not result in a change in the carrying value of any of High Arctic's financial instruments on transition date. The main area of change is the accounting for equity securities previously classified as available for sale which are now recorded at fair value through other comprehensive income. The revised policy of accounting for short term investments resulted in a decrease in retained deficit on December 31, 2015 of \$4.8 million with a corresponding decrease in accumulated other comprehensive income. Had the Company continued to apply IAS 39 a gain of \$0.1 million would have been recognized in earnings upon the disposition of an investment in the current period. Details of the effects of the adoption of IFRS 9 may be found in Note 3 of the Financial Statements.

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

## **Future Accounting Pronouncements**

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

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

There have been no changes in the Corporation's internal controls over financial reporting that occurred during the interim period ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect the Corporation's internal controls over financial reporting.

## **Business Risks and Uncertainties**

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

## **Non-IFRS Measures**

This MD&A contains references to certain financial measures that do not have a standardized meaning prescribed by IFRS and may not be comparable to the same or similar measures used by other companies. High Arctic uses these financial measures to assess performance and believes these measures provide useful supplemental information to shareholders and investors. These financial measures are computed on a consistent basis for each reporting period and include the following:

### **EBITDA**

Management believes that, in addition to net earnings reported in the consolidated statement of earnings and comprehensive income, EBITDA (earnings before interest, taxes, depreciation and amortization) is a useful supplemental measure of the Corporation's performance prior to consideration of how operations are financed or how results are taxed or how depreciation and amortization affects results. EBITDA is not intended to represent net earnings calculated in accordance with IFRS.

### **Adjusted EBITDA**

Adjusted EBITDA is calculated based on EBITDA (as referred to above) prior to the effect of share-based compensation, gains or losses on sale of assets or investments, excess of insurance proceeds over costs and foreign exchange gains or losses. Management believes the addback for these items provides a more comparable measure of the Corporation's operational financial performance between periods. Adjusted EBITDA as presented is not intended to represent net earnings or other measures of financial performance calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of consolidated net earnings to EBITDA and Adjusted EBITDA for the three and six months ended June 30:

(\$ millions)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
<b>Net earnings for the period</b>	6.3	7.2	17.5	12.0
<b>Add:</b>				
Interest and finance expense	0.1	0.1	0.2	0.2
Income taxes	2.9	2.6	7.1	4.3
Amortization	5.4	3.5	11.2	6.4
<b>EBITDA</b>	<b>14.7</b>	<b>13.4</b>	<b>36.0</b>	<b>22.9</b>
<b>Add:</b>				
Share-based compensation	0.3	0.4	0.6	1.0
Gain (loss) on sale of assets	-	0.3	(0.1)	0.3
Foreign exchange loss	0.1	-	0.4	0.3
<b>Adjusted EBITDA</b>	<b>15.1</b>	<b>14.1</b>	<b>36.9</b>	<b>24.5</b>

### Oilfield Services Operating Margin

Oilfield services operating margin is used by management to analyze overall operating performance. Oilfield services operating margin is not intended to represent operating income nor should it be viewed as an alternative to net earnings or other measures of financial performance calculated in accordance with IFRS. Oilfield services operating margin is calculated as revenue less oilfield services expense.

### Oilfield Services Operating Margin %

Oilfield services operating margin % is used by management to analyze overall operating performance. Oilfield services operating margin % is calculated as oilfield services operating margin divided by revenue.

### Percent of Revenue

Certain figures are stated as a percent of revenue and are used by management to analyze individual components of expenses to evaluate the Corporation's performance from prior periods and to compare its performance to other companies.

### Funds Provided from Operations

Management believes that, in addition to net cash generated from operating activities as reported in the consolidated statements of cash flows, cash flow from operating activities before working capital adjustments (funds provided from operations) is a useful supplemental measure as it provides an indication of the funds generated by High Arctic's principal business activities prior to consideration of changes in items of working capital.

This measure is used by management to analyze funds provided from operating activities prior to the net effect of changes in items of non-cash working capital, and is not intended to represent net cash generated from operating activities as calculated in accordance with IFRS.



The following tables provide a quantitative reconciliation of net cash generated from operating activities to funds provided from operations for the three and six months ended June 30:

\$ millions	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
<b>Net cash generated from operating activities</b>	<b>25.8</b>	18.5	<b>46.9</b>	31.6
Less:				
Net change in items of non-cash working capital	(12.4)	(8.0)	(14.6)	(12.9)
<b>Funds provided from operations</b>	<b>13.4</b>	10.5	<b>32.3</b>	18.7

### Working capital

Working capital is used by management as another measure to analyze the operating liquidity available to the Corporation. It is defined as current assets less current liabilities and is calculated as follows:

\$ millions	As at	
	June 30, 2016	December 31, 2015
<b>Current assets</b>	<b>79.6</b>	77.4
Less:		
<b>Current liabilities</b>	<b>(30.2)</b>	(34.2)
<b>Working capital</b>	<b>49.4</b>	43.2

### Net cash

Net cash is used by management to analyze the amount by which cash and cash equivalents exceed the total amount of debt. The amount, if any, is calculated as cash and cash equivalents less total long-term debt. The following tables provide a quantitative reconciliation of cash and cash equivalents to net cash as follows:

\$ millions	As at	
	June 30, 2016	December 31, 2015
<b>Cash and cash equivalents</b>	<b>37.7</b>	15.5
Less:		
Long-term debt	-	(4.0)
<b>Net cash</b>	<b>37.7</b>	11.5

### Forward-Looking Statements

This MD&A contains forward-looking statements. When used in this document, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “anticipate”, “believe”, “seek”, “propose”, “estimate”, “expect”, and similar expressions are intended to identify forward-looking statements. Such statements reflect the Corporation’s current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation’s actual results, performance or achievements to vary from those described in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this MD&A include, among others, statements pertaining to the following: general economic and business conditions which will, among other things, impact demand for and market prices for the Corporation’s services; expectations regarding the Corporation’s ability to raise capital and manage its debt obligations; commodity prices and the impact that they have on industry activity; estimated capital expenditure programs for fiscal 2016 and subsequent periods;

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projections of market prices and costs; factors upon which the Corporation will decide whether or not to undertake a specific course of operational action or expansion; treatment under governmental regulatory regimes and political uncertainty and civil unrest. With respect to forward-looking statements contained in this MD&A, the Corporation has made assumptions regarding, among other things, its ability to: obtain equity and debt financing on satisfactory terms; market successfully to current and new customers; obtain equipment from suppliers; construct property and equipment according to anticipated schedules and budgets; remain competitive in all of its operations; and attract and retain skilled employees.

The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and elsewhere in this MD&A, along with the risk factors set out in the most recent Annual Information Form filed on SEDAR at [www.sedar.com](http://www.sedar.com).

The forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. These statements are given only as of the date of this MD&A. The Corporation does not assume any obligation to update these forward-looking statements to reflect new information, subsequent events or otherwise, except as required by law.