



Management's Discussion and Analysis For the Three and Six Months Ended June 30, 2017 and 2016

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 9, 2017 and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2017 and 2016 (the "Financial Statements") and the audited consolidated financial statements for the years ended December 31, 2016 and 2015. Additional information relating to the Corporation including the Corporation's Annual Information Form ("AIF") for the year ended December 31, 2016, is available under the Corporation's profile on SEDAR at 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 17 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		
	2017	2016	% Change	2017	2016	% Change
Revenue	51.1	43.5	17%	115.9	98.2	18%
EBITDA⁽¹⁾	14.5	14.7	(1%)	35.5	36.0	(1%)
Adjusted EBITDA⁽¹⁾	14.3	15.1	(5%)	35.3	36.9	(4%)
Adjusted EBITDA % of revenue	28%	35%	(20%)	30%	38%	(20%)
Operating earnings	7.8	9.4	(17%)	22.3	25.1	(11%)
Net earnings	5.0	6.3	(21%)	14.0	17.5	(20%)
per share (basic and diluted) ⁽²⁾	0.09	0.12	(25%)	0.26	0.33	(21%)
Funds provided from operations⁽¹⁾	9.1	13.4	(32%)	26.1	32.3	(19%)
per share (basic) ⁽²⁾	0.17	0.25	(32%)	0.49	0.61	(20%)
per share (diluted) ⁽²⁾	0.17	0.25	(32%)	0.49	0.60	(18%)
Dividends	2.7	2.6	4%	5.3	5.2	2%
per share ⁽²⁾	0.05	0.05	0%	0.10	0.10	0%
Capital expenditures	1.8	2.3	(22%)	4.4	7.4	(41%)

	As at		
	June 30, 2017	December 31, 2016	% Change
Working capital⁽¹⁾	48.6	28.6	70%
Total assets	279.2	305.1	(8%)
Total non-current financial liabilities	9.6	4.2	129%
Net cash, end of period⁽¹⁾	20.0	3.3	506%
Shareholders' equity	233.4	230.2	1%
Shares outstanding⁽²⁾	53.3	53.2	0%

(1) Readers are cautioned that EBITDA, Adjusted EBITDA, Funds provided from operations, net (debt) cash and working capital do not have standardized meanings prescribed by IFRS – see "non IFRS Measures" on page 17 for calculations of these measures.

(2) The incentive shares held by a trustee under the Executive and Director Incentive Share Plan (2010) 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

Headquartered in Calgary, Alberta, Canada, High Arctic provides oilfield services to exploration and production companies operating in Canada and Papua New Guinea (“PNG”). High Arctic is a publicly traded company listed on the Toronto Stock Exchange under the symbol “HWO”.

On August 31, 2016, High Arctic acquired Tervita’s Production Services Division (the “Tervita Acquisition”). Through this acquisition, High Arctic added a fleet of 85 service rigs (of which 55 are currently registered and marketed) and related support equipment, a surface equipment rentals division and an abandonment and compliance consulting division. As a result of the expansion of the Corporation’s service offering following the Tervita Acquisition, High Arctic has organized its business into three business segments: Drilling Services; Production Services; and Ancillary Services.

Drilling Services

The Drilling Services 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 and two rigs managed under operating and maintenance contracts for one of the Corporation’s customers.

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.

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 consulting services.

Highlights

High Arctic’s expanded Canadian operations combined with its contracted drilling activity in PNG have contributed to the growth in revenue year to date in an otherwise challenging global market for the oil and gas industry.

Second Quarter 2017:

- Revenue in the quarter increased 17% to \$51.1 million from \$43.5 million in the second quarter of 2016. This increase in revenue was driven by the growth in High Arctic’s Production Services segment through the Tervita Acquisition completed on August 31, 2016 which offset lower quarter over quarter revenue contribution from the Corporation’s Drilling Services segment which benefited from higher activity levels in the second quarter of 2016 versus the second quarter of 2017.
- Utilization for High Arctic’s registered Concord Well Servicing rigs was 49% in the quarter versus industry utilization of 24% (source: Canadian Association of Oilwell Drilling Contractors “CAODC”).
- Increased contribution from High Arctic’s Production Services segment as well the Corporation’s contracted revenue in its Drilling Services segment allowed High Arctic to generate \$14.3 million in Adjusted EBITDA in the quarter.
- Consistent with prior quarters, High Arctic declared \$2.7 million (\$0.05 per share) in dividends during the quarter which represents 30% of funds provided from operations in the quarter.

Funds provided from operations was \$9.1 million during the quarter versus \$13.4 million in the first quarter of 2016. The decrease in funds provided from operations was due to the decline in Adjusted EBITDA quarter over quarter as well as \$3.1 million paid in withholding taxes associated with a \$20.5 million intercompany dividend paid from PNG to Canada. These funds were applied

against the Corporation's outstanding debt allowing High Arctic to continue to strengthen its balance sheet and exit the quarter with \$26.1 million in cash and \$6.1 million outstanding on its debt facilities for a net cash position of \$20.0 million.

As a result of the increased depreciation expense associated with the assets acquired in the Tervita Acquisition, net earnings declined to \$5.0 million (\$0.09 per share) in the quarter versus \$6.3 million (\$0.12 per share) in the second quarter of 2016.

Year to Date 2017:

- Consistent with the second quarter, the expansion of High Arctic's Production Services segment contributed to an 18% increase in revenue to \$115.9 million year to date versus \$98.2 million in the first six months of 2016. This increased revenue contribution as well as the Corporation's contracted revenue for Rigs 115 and 116 offset lower drilling activity in PNG year to date relative to the comparative period in 2016.
- While revenue increased in the period relative to the comparable period in 2016, the increased contribution from lower margin Production Services revenue resulted in a 4% decrease in Adjusted EBITDA to \$35.3 million versus \$36.9 million in the first six months of 2016.
- The Corporation has generated \$14.0 million (\$0.26 per share) in net earnings year to date versus \$17.5 million (\$0.33 per share) in the first six months of 2016.
- A total of \$5.3 million has been returned to shareholders year to date through dividends which represents 20% of funds provided from operations year to date.

High Arctic continues to maintain a strong balance sheet and continues to look for opportunities to expand its business operations in order to position itself for a future increase in industry activity levels.

Subsequent to quarter end, Mr. Thomas Alford tendered his resignation as Interim President and CEO effective July 20, 2017. The Board of Directors has formed a special committee to undertake a search for a permanent President and CEO, and on an interim basis, Mr. Michael Binnion, High Arctic's Chairman, is acting President and CEO.

Operating Segments

Drilling Services

(\$ millions)	Three Months Ended June 30				Six Months Ended June 30			
	2017	2016	Change	%	2017	2016	Change	%
Revenue	28.3	33.9	(5.6)	(17%)	62.6	74.9	(12.3)	(16%)
Oilfield services expense ⁽¹⁾	16.1	21.5	(5.4)	(25%)	34.7	45.8	(11.1)	(24%)
Oilfield services operating margin ⁽¹⁾	12.2	12.4	(0.2)	(2%)	27.9	29.1	(1.2)	(4%)
Operating margin (%)	43%	37%	7%	18%	45%	39%	6%	15%

(1) See 'non-IFRS Measures' on page 17

The Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) which were added to High Arctic's fleet during 2015. These rigs are in addition to Rigs 103 and 104 which High Arctic operates on behalf of a major oil and gas exploration company in PNG.

Second Quarter:

Rig 104 was active during the quarter completing its drilling assignment on Muruk-1. Upon completion of the drilling program in June, the rig was rigging out to be stacked in the Muruk area awaiting its next assignment. Rig 115 completed demobilization from Antelope-7 and is currently stacked in Port Moresby. The two year take-or-pay contract term for Rig 115 ended in June

and the rig is now available for spot market activity. Rigs 103 and 116 were inactive during the quarter with Rig 116 continuing to generate standby revenue under its take-or-pay contract. As a result of the lower drilling activity and services rates in the quarter, drilling services revenue declined 17% to \$28.3 million from \$33.9 million in the second quarter of 2016 which had one rig drilling and two rigs mobilizing along with Rig 116 generating standby revenue.

Operating margin as a percentage of revenue increased quarter over quarter to 43% versus 37% in the second quarter of 2016. Consistent with prior quarters, the standby revenue generated on Rig 116 skewed operating margins higher due to minimal operating costs being incurred while the rig is on standby. Standby revenue accounted for approximately 23% of drilling services revenue in the quarter versus 18% in the comparative quarter in 2016. Excluding the impact of standby revenue, operating margin as a percentage of revenue would have been 28% in the quarter versus 24% in the second quarter of 2016. Operating margins also benefited from lower rig lease costs during the quarter as Rig 103 was stacked and did not incur rig lease costs during the quarter.

Year to Date 2017:

Contracted revenue from Rigs 115 and 116 has mitigated the decline in lower drilling activity in the first six months of 2017 versus the comparative period in 2016. Year to date approximately two rigs have been active versus three rigs in the first six months of 2016. The lower drilling activity in 2017 is a result of lower global commodity prices as well as delays in drilling programs as a result of a corporate takeover of one of High Arctic's customers in PNG.

Operating margin as a percentage of revenue increased to 45% year to date versus 39% in the first six months of 2016. Consistent with the second quarter results, operating margins in the first six months of 2017 have benefited from lower rig lease costs on Rig 103 as well as an increased proportion of revenue generated from contracted standby revenue which incurs low operating costs. Year to date 20% of the Corporation's drilling revenue has been generated by take-or-pay standby revenue versus 16% in the comparative period in 2016.

Production Services

(\$ millions)	Three Months Ended June 30				Six Months Ended June 30			
	2017	2016	Change	%	2017	2016	Change	%
Revenue	16.8	3.6	13.2	367%	39.3	8.3	31.0	373%
Oilfield services expense ⁽¹⁾	14.4	2.9	11.5	397%	33.1	5.7	27.4	481%
Oilfield services operating margin ⁽¹⁾	2.4	0.7	1.7	243%	6.2	2.6	3.6	138%
Operating margin (%)	14%	19%	(5%)	(27%)	16%	31%	(16%)	(50%)

Operating Statistics:

Service rigs

Average Fleet ⁽²⁾	55	-	-	N/A	54	-	-	N/A
Utilization ⁽³⁾	49%	-	-	N/A	56%	-	-	N/A
Operating hours	24,514	-	-	N/A	55,178	-	-	N/A
Revenue per hour	587	-	-	N/A	595	-	-	N/A

Snubbing rigs

Average Fleet ⁽⁴⁾	9	8	1	13%	9	8	1	13%
Utilization ⁽³⁾	21%	37%	(16%)	(42%)	30%	41%	(11%)	(28%)
Operating hours	1,752	2,675	(923)	(35%)	4,806	5,965	(1,159)	(19%)

(1) See 'non-IFRS Measures' on page 17

(2) Average service rig fleet represents the average number of rigs registered with the CAODC during the period.

(3) Utilization is calculated on a 10-hour day.

(4) Average snubbing fleet represents the average number of rigs marketed during the period.

August 9, 2017

High Arctic's well servicing and snubbing operations are provided through its Production Services segment. These operations are primarily conducted in the 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. The Concord Well Servicing operations were added to the Production Services segment through the Tervita Acquisition, which closed on August 31, 2016. The Production Services segment also provides heli-portable workover services in PNG, however, no workover services were provided in PNG during 2016 or year to date in 2017.

Second Quarter:

The 367% increase in revenue quarter over quarter is due to the addition of the Concord Well Servicing operations added in the third quarter of 2016. The Concord Well Servicing operations contributed \$14.4 million in revenue during the quarter with the Corporation's snubbing operations contributing \$2.4 million in revenue. The Corporation's Well Servicing operations benefited from its high exposure to heavy oil areas which experienced continued levels of activity during the traditionally slow seasonal spring breakup period which curtails field activity in the Corporation's other operating areas. As a result, the Concord rigs were able to generate 24,514 operating hours for a 49% utilization of its registered rigs. Concord's 49% utilization compares favorably to the 24% utilization generated by the industry's registered well servicing rigs in the second quarter of 2017 (source: CAODC). During the quarter the Corporation reactivated an additional rig resulting in an average of 55 CAODC registered rigs during the quarter.

Pricing remains competitive in the industry resulting in a \$587/hour average revenue rate for Concord's rigs during the quarter versus the \$600/hour generated in the first quarter of 2017. This decline in average revenue rate in the quarter is a function of the increased proportion of hours generated from lower rate heavy oil activity as well as the first quarter benefitting from seasonal boiler revenue contribution.

Lower snubbing activity for the Corporation's core customers negatively impacted demand for the Corporation's snubbing rigs during the quarter resulting in a 35% decline in operating hours in the quarter to 1,752 hours versus 2,675 hours generated in the second quarter of 2016.

As a result of the increased revenue, operating margin increased to \$2.4 million from \$0.7 million in the second quarter of 2016. Operating margin as a percentage of revenue was 14% during the quarter versus 19% in the second quarter of 2016. Operating margin as a percentage of revenue was negatively impacted by competitive pricing for the Corporation's well servicing rigs as well as the incurrence of \$0.3 million in severance and restructuring costs as the Corporation consolidated its Red Deer and Blackfalds operations and centralized its core maintenance activities in its Acheson maintenance facility. The consolidation of these operations is anticipated to result in approximately \$1.0 million in annualized cost savings, excluding severance costs.

Year to Date 2017:

The addition of the Concord Well Servicing operations has resulted in a 373% growth in Production Services segment revenue to \$39.3 million from \$8.3 million in the first six months of 2016. Year to date the Concord rigs have generated 55,178 operating hours for a 56% utilization of the Corporation's 54 average CAODC registered service rigs versus 31% utilization achieved in the first six months for the industry's registered service rig fleet (source: CAODC). Year to date the Concord rigs have generated an average revenue rate of \$595/hour. No comparative information is available for 2016 as the Concord service rig operations were not added until August 31, 2016.

Activity for the Corporation's snubbing rigs has declined 19% year to date versus the first six months of 2016. This decline in activity was due to the Corporation's core snubbing customers directing their efforts towards completing fracturing programs during the period. Snubbing services are typically provided subsequent to fracturing of a well, therefore, the high well completions activity in the first half of 2017 is anticipated to result in increased demand for the Corporation's snubbing services in upcoming quarters.

As a result of the increased revenue, operating margin increased to \$6.2 million year to date from \$2.6 million in the first half of 2016. Operating margins as a percentage of revenue declined to 16% during the period from 31% in the first six months of

2016. The primary factors contributing to this decline are competitive pricing pressure in the industry resulting in lower field operating margins and increased fixed operating costs associated with the growth of the Production Services segment. In addition, the Production Services segment incurred higher initial start-up and maintenance costs in the first quarter associated with the reactivation of previously idle rigs and the establishment of its Concord Well Servicing operation in Grande Prairie. The restructuring costs incurred in the second quarter have also negatively impacted operating margins year to date.

Ancillary Services

(\$ millions)	Three Months Ended June 30				Six Months Ended June 30			
	2017	2016	Change	%	2017	2016	Change	%
Revenue	6.8	6.0	0.8	13%	15.6	15.0	0.6	4%
Oilfield services expense ⁽¹⁾	2.7	1.0	1.7	170%	5.5	3.1	2.4	77%
Oilfield services operating margin ⁽¹⁾	4.1	5.0	(0.9)	(18%)	10.1	11.9	(1.8)	(15%)
Operating margin (%)	60%	83%	(23%)	(28%)	65%	79%	(14%)	(18%)

(1) Revenue includes inter-segment revenue charged to Production Services and Drilling Services from Ancillary Services division of \$0.8 million for the quarter. No inter-segment revenue was charged in comparative periods in 2016.

(2) See 'non-IFRS Measures' on page 17.

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 consulting services, acquired in the Tervita Acquisition.

Second Quarter:

Increased nitrogen services activity in the quarter combined with the additional rental and compliance consulting services added through the Tervita Acquisition offset slightly lower equipment rental activity in PNG during the quarter. The Corporation continues to explore alternative geographic and industry markets to redeploy inactive rental equipment in PNG, however, no contribution from alternative markets was generated in the quarter.

Operating margin as a percentage of revenue declined to 60% in the quarter versus 83% in the second quarter of 2016. This decline is associated with the increased contribution from lower margin service lines in the quarter as well as maintenance costs incurred during spring breakup for the segment's nitrogen and Canadian rentals operations.

Year to Date 2017:

Consistent with the second quarter results, increased contribution from the segment's Canadian rentals, nitrogen services and compliance consulting offset lower revenue contribution from the Corporation's PNG rentals. Nitrogen services has benefited from increased well fracturing activity in the WCSB year to date resulting in an 82% increase in revenue year to date versus the first six months of 2016.

The increased contribution from lower margin services has contributed to the decline in operating margin as a percentage of revenue year to date in comparison to the first six months of 2016.

General and Administration

(\$ millions)	Three Months Ended June 30				Six Months Ended June 30			
	2017	2016	Change	%	2017	2016	Change	%
General and administration	4.4	3.0	1.4	47%	8.9	6.7	2.2	33%
Percent of revenue	9%	7%	2%	29%	8%	7%	1%	14%

The \$4.4 million in general and administrative costs incurred in the quarter was consistent with the \$4.5 million in costs incurred in the first quarter of 2017. Relative to the comparable periods in 2016, general and administrative costs have increased due to the additional support infrastructure added following the Tervita Acquisition. As a percentage of revenue, general and administrative costs increased to 9% of revenue in the quarter versus 7% in the comparable period in 2016 and 8% year to date in 2017. This increase is a result of lower revenue contribution from the Corporation's PNG drilling segment as well as the seasonal spring breakup slowdown in the Corporation's Canadian operations.

Depreciation

As a result of the \$64.0 million in operating assets added through the Tervita Acquisition in the third quarter of 2016, depreciation expense increased to \$6.5 million in the quarter from \$5.4 million in the comparative quarter. These capital additions also resulted in an increase in depreciation expense year to date to \$12.9 million from \$11.2 million. The Corporation also amended its depreciation estimate for non-rig assets in the first quarter of 2017 to straight-line depreciation methodology from declining balance. Management believes this change in depreciation methodology provides a more accurate reflection of the pattern in which the Corporation's asset's future economic benefits are expected to be consumed. Additional details on this change in depreciation methodology can be found in note 3 of the June 30, 2017 unaudited condensed consolidated financial statements. Had the Corporation continued to depreciate its assets using declining balance, depreciation expense would have been approximately \$6.6 million for the second quarter of 2017 versus the \$6.5 million recorded under the adopted straight-line depreciation methodology.

Share-based Compensation

The decrease in share-based compensation expense to nil in the second quarter and \$0.1 million year to date from \$0.3 million and \$0.6 million in the respective periods in 2016, is a result of less stock options being granted in 2017, as well as higher costs associated with options granted in prior years which had been fully amortized prior to 2017.

Foreign Exchange Transactions

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

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

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

The U.S. dollar remained strong relative to the Canadian dollar, as it increased during the second quarter compared to the first quarter, with an average exchange rate of 1.344 (2016 – 1.288). This strong U.S. dollar benefited the Corporation as the majority of the Corporation's PNG business is conducted in U.S. dollars.

As at June 30, 2017, the U.S. dollar exchange rate was 1.298 versus 1.343 as at December 31, 2016. This decline in exchange rate has resulted in a translation loss of \$4.6 million recorded in other comprehensive income for the six months ended June 30, 2017 (\$3.2 million for the three months ended June 30, 2017).

The fluctuation in exchange rates year to date also resulted in a \$0.3 million foreign exchange gain being recorded on various foreign exchange transactions. The Corporation does not currently hedge its foreign exchange transactions or exposure.

Interest and Finance Expense

On a year to date basis, the Corporation had an average debt balance outstanding of \$15.1 million, resulting in \$0.7 million being incurred in interest costs (\$0.3 million for the three months ended June 30, 2017). In the third quarter of 2016 High Arctic utilized \$40.0 million of its debt facility to fund the closing of the Tervita Acquisition, which was subsequently paid down from the Corporation's available cash resources.

Income Taxes

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	Change	2017	2016	Change
Net earnings before income taxes	7.7	9.2	(1.5)	21.9	24.6	(2.7)
Current income tax expense	5.1	1.6	3.5	8.5	4.4	4.1
Deferred income tax expense	(2.4)	1.3	(3.7)	(0.6)	2.7	(3.3)
Total income tax expense	2.7	2.9	(0.2)	7.9	7.1	0.8
Effective tax rate	35%	32%		36%	29%	

The Corporation's effective tax rate increased to 36% for the first six months of 2017 from 29% in the first half of 2016. The increase in effective tax is largely due to an increase in certain foreign tax rates implemented effective January 1, 2017 as well as increased tax expense associated with tax withholdings on dividend payments from PNG. During the quarter the Corporation paid \$3.1 million in withholding taxes on the payment of intercompany dividends from PNG to Canada.

As at June 30, 2017 High Arctic had \$97.2 million in unrecognized tax pools, consisting of \$60.3 million in non-capital loss pools and \$36.9 million in capital loss pools, which may be utilized to offset future taxable earnings generated by the Corporation's Canadian business operations.

Other Comprehensive Income

As discussed above under Foreign Exchange Transactions, the Corporation recorded a \$4.6 million foreign currency translation loss in other comprehensive income year to date due to the strengthening of the Canadian dollar at June 30, 2017 relative to December 31, 2016.

During the six months ended June 30, 2017, the Corporation recognized a \$1.0 million loss on its strategic investments, which decreased \$0.3 million during the second quarter. Contributing to the loss was the disposition of investments during the first quarter, which had an original cost of \$0.9 million, for proceeds of \$0.6 million.

Liquidity and Capital Resources

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	Change	2017	2016	Change
Cash provided by (used in):						
Operating activities	31.4	25.8	5.6	26.5	46.9	(20.4)
Investing activities	(1.6)	(1.7)	0.1	(3.5)	(6.8)	3.3
Financing activities	(22.1)	(6.8)	(15.3)	(23.4)	(15.9)	(7.5)
Effect of exchange rate changes	(0.7)	(0.1)	(0.6)	(0.8)	(2.0)	1.2
Increase (decrease) in cash and cash equivalents	7.0	17.2	(10.2)	(1.2)	22.2	(23.4)
As At						
				June 30, 2017	December 31, 2016	Change
Working capital ⁽¹⁾				48.6	28.6	20.0
Working capital ratio ⁽¹⁾				2.7:1	1.5:1	1.2:1
Net cash ⁽¹⁾				20.0	3.3	16.7
Undrawn availability under debt facilities				38.9	21.0	17.9

(1) See 'non-IFRS Measures' on page 17

High Arctic continues to maintain a strong balance sheet with \$26.1 million in cash and \$6.1 million outstanding on its debt facilities for a net cash balance of \$20.0 million as at June 30, 2017. During the quarter the Corporation reduced its outstanding debt balance by \$19.4 million following the repatriation of cash from its PNG business operations. During the quarter the Corporation paid an intercompany dividend to repatriate cash from PNG in the amount of \$20.5 million less dividend withholding taxes of \$3.1 million. This dividend follows the collection of outstanding receivables during the quarter following the continued approval from the Bank of PNG for the Corporation to retain its U.S. Dollar account for its PNG business operations.

The Bank of PNG policy continues to encourage the local market in PNG Kina. In the fourth quarter of 2016, the Bank of PNG commenced a review of all foreign currency accounts in PNG to ensure they had a legitimate business purpose. Due to High Arctic's requirement to transact with international suppliers and customers, High Arctic 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 PNG drilling contracts to be settled in PNG Kina, unless otherwise approved by the Bank of PNG for the contracts to be settled in U.S. dollars. The Corporation has received such approval for its existing contracts as well as extensions or renewals of its contracts with its key customer in PNG. The Corporation will continue to seek Bank of PNG approval for future customer contracts to be settled in U.S. Dollars on a contract by contract basis, however, 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.

Operating Activities

Funds provided from operations decreased to \$9.1 million in the quarter from \$13.4 million in the second quarter of 2016. This decrease was a result of a 5% decline in Adjusted EBITDA during the quarter as well as \$3.1 million paid in withholding taxes related to the intercompany dividend paid in the quarter. The decline in funds provided from operations was offset by the collection of outstanding accounts receivable balances in the Corporation's PNG business operations which resulted in cash generated from operating activities increasing to \$31.4 million in the quarter from \$25.8 million in the second quarter of 2016.

Year to date, funds provided from operations has decreased 19% to \$26.1 million from \$32.3 million in the first six months of 2017, which is also due to lower Adjusted EBITDA, dividend withholding tax payments and increased interest expense related to the Corporation's debt drawings to fund the Tervita acquisition in the third quarter of 2016.

Investing Activities

High Arctic incurred \$1.8 million in capital expenditures during the second quarter and \$4.4 million year to date primarily related to maintenance capital and upgrades to the Corporation's well servicing rigs to enhance the efficiencies and marketability of rigs in the Corporation's various operating areas. Further capital investment and rig enhancements will be made as driven by customer demand and operating requirements.

During the first quarter of 2017, the Corporation generated \$0.6 million in cash from the sale of a portion of its short-term investments.

Financing Activities

During the second quarter of 2017, the Corporation reduced its outstanding debt balance by \$19.4 million and distributed \$2.7 million in dividends. Year to date, the Corporation distributed \$5.3 million in dividends.

Credit Facility

In the first quarter of 2017, High Arctic renewed its existing credit facility. As at June 30, 2017, High Arctic's credit facility consisted of a \$45.0 million revolving loan facility which matures on August 31, 2019. 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 \$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. As at June 30, 2017, approximately \$6.1 million was drawn on the facility and total credit available to draw was approximately \$38.9 million.

The Corporation's loan facilities are subject to three financial covenants, which are reported to the lender on a quarterly basis:

Covenant	Required	June 30, 2017
Funded debt to EBITDA ⁽¹⁾	2.50 : 1 Maximum	0.11 : 1
Current ratio ⁽²⁾	1.25 : 1 Minimum	2.72 : 1
Fixed charge coverage ratio ⁽³⁾	1.25 : 1 Minimum	12.54 : 1

(1) Funded debt to EBITDA is defined as the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing 4 quarters.

(2) Current ratio is defined as the ratio of consolidated current assets to consolidated net current liabilities (excluding current portion of long-term debt and other debt, if any).

(3) Fixed charge coverage ratio is defined as EBITDA less cash taxes, dividends, distributions and unfunded capital expenditures divided by the total of principal payments on long-term debt and capital leases plus interest, in which principal payments means the total principal amount of the loan outstanding at the end of the quarter amortized over a 7-year period.

There have been no changes to these financial covenants subsequent to June 30, 2017 and the Corporation remains in compliance with the financial covenants under its credit facility as at June 30, 2017.

Contractual Obligations and Contingencies

High Arctic's contractual financial obligations as at June 30, 2017 are summarized as follows:

(\$ millions)	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	23.3	-	-	-	23.3
Dividends payable	0.9	-	-	-	0.9
Operating and financial lease commitments	2.3	2.0	1.8	9.1	15.2
Current portion of long-term debt ⁽¹⁾	0.3	6.5	-	-	6.8
Total	26.8	8.5	1.8	9.1	46.2

⁽¹⁾ Long-term debt includes future expected interest payments

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 \$7.1 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 amount of inventory to the customer. The Corporation recorded a provision of \$0.7 million during 2016 within accrued liabilities to account for a potential shortfall in inventory, which may be cash settled with the customer.

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 9, 2017, there were 53,276,039 issued and outstanding common shares, including 40,000 shares held in the Executive and Director Share Incentive Plan, and 1,632,000 options were outstanding at an average exercise price of \$4.08.

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)	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4 ⁽²⁾	Q3 ⁽²⁾
Revenue	51.1	64.8	62.3	47.5	43.5	54.7	58.0	58.5
Adjusted EBITDA⁽¹⁾	14.3	21.0	18.3	15.6	15.1	21.8	20.8	18.7
Adjusted net earnings⁽¹⁾	5.0	9.0	8.4	8.8	6.3	11.2	9.7	10.2
per share - basic	0.09	0.17	0.16	0.16	0.12	0.21	0.18	0.18
Net earnings	5.0	9.0	7.5	20.1	6.3	11.2	9.7	10.2
per share - basic	0.09	0.17	0.14	0.38	0.12	0.21	0.18	0.18
Funds provided from operations⁽¹⁾	9.1	17.0	15.9	11.6	13.4	18.9	19.8	14.3

⁽¹⁾ See 'non-IFRS Measures' on page 17

⁽²⁾ Net earnings for 2015 have been restated to reflect the full retroactive adoption of IFRS 9 - see Note 4 to the Corporation's December 31, 2016 audited financial statements for additional details.

Various factors have affected the quarterly profitability of the Corporation's operations. In response to customer demand in PNG, the Corporation added two new drilling rigs and additional rental equipment to its fleet in the first and third quarters of

2015. These rigs and rental equipment were contracted under take-or-pay contract arrangements which provided for a consistent revenue and earnings base which helped to mitigate the impact of lower activity levels in the second and third quarters of 2016 for the two rigs operated by High Arctic on behalf of one of its customers. 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. Since the second quarter of 2015, the U.S. Dollar has strengthened relative to the Canadian dollar, peaking in the first quarter of 2016 and subsequently leveling off in the 1.30 to 1.35 range since the second quarter of 2016.

The decline in oil and natural gas prices has resulted in historically low drilling and completion activities in Canada, resulting in lower Canadian revenues and decreased profit in 2015 and into 2016. With an anticipation of improving industry activity levels in Canada the Corporation completed the Tervita Acquisition, effective August 31, 2016, which contributed to the increased revenue since the fourth quarter of 2016, as well as a gain on acquisition in the third quarter of 2016.

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.

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.

	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and natural gas prices (Average for the period)								
Brent Crude Oil (U.S. \$/bbl)	\$51	\$55	\$51	\$47	\$47	\$35	\$45	\$51
Japan LNG (U.S. \$/mmbtu)	\$8.40	\$7.57	\$7.15	\$6.51	\$6.08	\$7.70	\$9.03	\$9.23
U.S./Canadian dollar exchange rate	1.34	1.32	1.33	1.30	1.29	1.37	1.34	1.31

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 remained strong subsequent to the second quarter of 2015 which has benefited the Corporation's financial results.

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 medium and 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.

	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and natural gas prices								
Average for the period:								
West Texas Intermediate (U.S. \$/bbl)	\$48	\$52	\$49	\$45	\$46	\$33	\$42	\$46
Canadian Light Sweet Oil (Cdn \$/bbl)	\$60	\$65	\$61	\$54	\$55	\$41	\$53	\$55
AECO (C\$/mmbtu)	\$2.79	\$2.69	\$3.11	\$2.36	\$1.42	\$1.83	\$2.48	\$2.92
Other industry indicators								
Total wells drilled in Western Canada ⁽¹⁾	1,265	1,554	824	754	1,055	801	1,165	1,398
Average service rig utilization rates ⁽¹⁾	24%	37%	30%	24%	18%	24%	31%	31%
Average drilling rig utilization rates ⁽¹⁾	18%	39%	26%	16%	7%	22%	22%	24%

(1) Source: 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. The recent increase in oil prices positively impacted drilling and well completion activities year to date in 2017.

Outlook

After experiencing historic activity lows in 2016, the oilfield services industry continues to show signs of improvement in 2017 relative to 2016. Drilling rig activity in the WCSB is up year to date relative to the comparable period in 2016 with a total of 2,819 wells drilled year to date in 2017 versus 1,856 wells in the comparable period in 2016 (source: CAODC).

The recent increase in activity levels has been a positive sign for the industry, however, shortages of skilled labor is beginning to impair the industry's ability to respond to the increasing activity levels. In addition, the prolonged industry downturn has curtailed investment in maintenance capital which may limit the available industry fleet capacity. In order to capitalize on these potential capacity shortages, High Arctic continues to evaluate further opportunities to expand its Canadian operations both organically through the marketing and reallocation of its existing equipment fleet, and also through potential acquisitions. High Arctic has also continued to reinvest in its fleet and is actively recruiting to expand its labour force to meet demand.

This increase in demand and tightening of supply is beginning to open opportunities for improved pricing, however, this may be partially offset by increased operating costs associated with supply and labor cost increases. High Arctic continues to seek opportunities to improve its operational efficiency and reduce operating costs which is demonstrated through the consolidation of its operating facilities and support functions in the second quarter. These initiatives as well as improved pricing and increased activity are anticipated to result in improved operating margins for the Corporation's Production Services division in upcoming quarters.

As announced on July 10, 2017, the Corporation continues work towards strengthening its business operations in PNG through the announcement that the Corporation has entered into formal and exclusive negotiations with its major customer in PNG to exchange an equal share of its owned rigs (Rigs 102, 115 and 116) for an equal share of the rigs that it has historically managed for this customer under long term management agreements (Rigs 101, 103 and 104) in a company to be jointly owned by High Arctic and its customer. High Arctic will provide the management of this joint company and will operate the rigs for the customer under a minimum three-year exclusive call rig services agreement.

Negotiations and terms are still being finalized and it is anticipated that terms on the joint company could be completed as soon as year end. In the interim, High Arctic has entered into one year extensions on its existing management contracts for Rigs 103 and 104. As part of these extensions, High Arctic has worked with its customer to reduce rates under the new contract by 22%. These rate reductions are being partially offset by reduced operating and equipment lease costs for the services provided under the contract.

High Arctic has also been contracted to provide a fast moving land rig in PNG for a six to twelve month drilling program for its primary customer. High Arctic has entered into a temporary lease for the rig from an foreign service provider and will operate the rig in PNG during the term of the drilling project.

Activities have commenced to prepare Rig 103 for its next drilling assignment in P'yang. The rig will commence mobilization in the third quarter and drilling in the fourth quarter. Rig 104 is currently stacked in the Muruk area awaiting its next job that is anticipated to commence in the first quarter of 2018. Rig 115 and 116 are currently stacked in Port Moresby with Rig 116 continuing to generate standby revenue.

Financial Risk Management

Credit Risk

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

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

The Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation provides services to three large customers in PNG (2016 – four) which individually accounted for greater than 10% of its consolidated revenues during the six months ended June 30, 2017. Sales to these three customers were approximately \$30.4 million, \$14.7 million and \$20.7 million respectively for the six months ended June 30, 2017 (2016 - \$34.4 million, \$14.7 million and \$16.7 million). As at June 30, 2017, these three customers represented 37%, 8% and 11%, respectively, of outstanding accounts receivable (December 31, 2016 – three customers represented a total of 53%). Management has assessed the three customers as creditworthy and the Corporation has had no history of collection issues with these customers.

The Corporation's accounts receivable are aged as follows:

Days outstanding:	June 30, 2017	December 31, 2016
Less than 31 days	27.2	30.3
31 to 60 days	0.9	13.9
61 to 90 days	3.0	4.3
Greater than 90 days	5.7	0.7
Allowance for doubtful accounts	(0.1)	(0.1)
Total	36.7	49.1

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, 2017, the Corporation had drawn approximately \$6.1 million on its 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, 2017, a \$0.10 change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a \$1.3 million 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, 2017:

(millions)	U.S. Dollar ⁽¹⁾	PNG Kina ⁽²⁾	Australian Dollar ⁽³⁾
Cash and cash equivalents	18.6	2.9	0.2
Trade and other receivables	18.4	0.3	-
Trade and other payables	(9.8)	(4.3)	(0.2)
Total	27.2	(1.1)	0.0

(1) As at June 30, 2017, one U.S. dollar was equivalent to 1.2977 Canadian dollars.

(2) As at June 30, 2017, one PNG Kina was equivalent to 0.4092 Canadian dollars.

(3) As at June 30, 2017, one Australian dollar was equivalent to 0.9968 Canadian dollars.

As at June 30, 2017 U.S. dollar \$17.7 million was on deposit with a large international bank in PNG. The BPNG has provided approval for High Arctic to maintain a U.S. dollar bank account in accordance with the BPNG currency regulations, however, if such approval is withdrawn these funds may be converted into PNG Kina and the Corporation would be required to access the foreign currency market in PNG to meet its foreign currency obligations, thus exposing the Corporation to greater foreign exchange exposure for the Kina. The BPNG currency regulations also limits the amount of foreign currency companies can maintain in order to meet the forecasted three month cash flow requirements, with excess funds required to be held in Kina.

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

Information on the Corporation's critical accounting policies and estimates can be found in the notes to the annual audited consolidated financial statements for the year ended December 31, 2016.

During the first quarter the Corporation undertook a review of its depreciation methodology for the Corporation's non-rig assets. Based on this review, the Corporation amended its depreciation estimate for non-rig assets in the quarter to straight-line depreciation methodology from declining balance. Management believes this change in depreciation methodology provides a more accurate reflection of the pattern in which the Corporation's asset's future economic benefits are expected to be consumed. Additional details on this change in depreciation methodology can be found in note 3 to the June 30, 2017 unaudited condensed consolidated financial statements. Had the Corporation continued to depreciate its assets using declining balance, depreciation expense would have been approximately \$13.3 million for the first six months of 2017 versus the \$12.9 million recorded under the adopted straight-line depreciation methodology.

The Corporation also undertakes a review for impairment of its cash-generating units ("CGUs") at each reporting date to determine whether there is any indication of impairment. As a result of the decline in the Corporation's publicly traded market value, the Corporation conducted a test for impairment as at June 30, 2017. Based on a value in use calculation reflecting discounted future cash flows, the Corporation determined the recoverable value of the Corporation's CGUs exceeded their respective carrying values, therefore, no impairment was recognized at June 30, 2017.

Accounting Policies

High Arctic's significant accounting policies are set out in note 3 of the Corporation's annual audited consolidated financial statements for the year ended December 31, 2016. Other than the change in depreciation methodology discussed under Critical Accounting Estimates and Judgements, there were no significant changes to the Corporation's accounting policies during the three months ended June 30, 2017.

Future Accounting Pronouncements

Leases

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

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

Revenue Recognition

In May 2014, the IASB published IFRS 15, "*Revenue From Contracts With Customers*" ("IFRS 15") replacing IAS 11, "*Construction Contracts*", IAS 18, "*Revenue*" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is currently evaluating the impact of adopting IFRS 15 on the Financial Statements.

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, 2017 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. Readers of the Corporation's MD&A should carefully consider the risks described under the heading "Risk Factors" in the Corporation's recently filed Annual Information Form for the year ended December 31, 2016 (the "AIF"), which are specifically incorporated by reference herein. The AIF is available on SEDAR at www.sedar.com, a copy of which can be obtained on request, without charge, from the Corporation.

Non-IFRS Measures

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

EBITDA

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

Adjusted EBITDA

Adjusted EBITDA is calculated based on EBITDA (as referred to above) prior to the effect of share-based compensation, gains or losses on sales or purchases of assets or investments, business acquisition costs, 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, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net earnings for the period	5.0	6.3	14.0	17.5
Add:				
Interest and finance expense	0.3	0.1	0.7	0.2
Income taxes	2.7	2.9	7.9	7.1
Depreciation	6.5	5.4	12.9	11.2
EBITDA	14.5	14.7	35.5	36.0
Adjustments to EBITDA:				
Share-based compensation	-	0.3	0.1	0.6
Gain on sale of assets	-	-	-	(0.1)
Foreign exchange (gain) loss	(0.2)	0.1	(0.3)	0.4
Adjusted EBITDA	14.3	15.1	35.3	36.9

Adjusted Net Earnings

Adjusted net earnings is calculated based on net earnings prior to the effect of gains and transaction costs incurred for acquisitions. Management utilizes Adjusted net earnings to present a measure of financial performance that is more comparable between periods. Adjusted net earnings as presented is not intended to represent net earnings or other measures of financial performance calculated in accordance with IFRS. Adjusted net earnings per share and Adjusted net earnings per share – diluted are calculated as Adjusted net earnings divided by the number of weighted average basic and diluted shares outstanding, respectively. The following tables provide a quantitative reconciliation of net earnings to Adjusted net earnings for the three and six months ended June 30:

\$ millions	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net earnings for the period	5.0	6.3	14.0	17.5
Adjustments to net earnings:				
Gain on acquisition	-	-	-	-
Acquisition costs expensed	-	-	-	-
Adjusted net earnings	5.0	6.3	14.0	17.5

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.

\$ millions	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Revenue	51.1	43.5	115.9	98.2
Less:				
Oilfield services expense	32.4	25.4	71.7	54.6
Oilfield Services Operating Margin	18.7	18.1	44.2	43.6
Oilfield Services Operating Margin (%)	37%	42%	38%	44%

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, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net cash generated from operating activities	31.4	25.8	26.5	46.9
Less:				
Net changes in items of non-cash working capital	(22.3)	(12.4)	(0.4)	(14.6)
Funds provided from operations	9.1	13.4	26.1	32.3

Working capital

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

\$ millions	As At	
	June 30, 2017	December 31, 2016
Current assets	76.8	90.7
Less:		
Current liabilities	(28.2)	(62.1)
Working capital	48.6	28.6

Net (debt) cash

Net (debt) cash is used by management to analyze the amount by which cash and cash equivalents exceed the total amount of long-term debt and bank indebtedness or vice versa. 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 (debt) cash as follows:

\$ millions	As At	
	June 30, 2017	December 31, 2016
Cash and cash equivalents	26.1	27.3
Less:		
Long-term debt	(6.1)	(24.0)
Net (debt) cash	20.0	3.3

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; the Corporation’s ability to negotiate and execute agreements to effect the proposed joint company with its customer for business operations in PNG; ; future acquisitions and growth opportunities; the impact of the Tervita Acquisition on the Corporation’s financial and operational performance and growth activities; 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; the Corporation’s ongoing relationship with major customers; treatment under governmental regulatory regimes and political uncertainty and civil unrest; and the Corporation’s ability to repatriate excess funds from PNG as approval is received from the Bank of PNG.

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; the general continuance of current or, where applicable assumed industry conditions; activity and pricing;

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assumptions regarding commodity prices, in particular oil and gas; the Corporation's primary objectives, and the methods of achieving those objectives; obtain equipment from suppliers; construct property and equipment according to anticipated schedules and budgets; remain competitive in all of its operations; and attract and retain skilled employees.

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

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