HIGH ARCTIC ENERGY SERVICES INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED
June 30, 2020 and 2019

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Three and Six Months Ended June 30, 2020 and 2019

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**"). This MD&A is based on information available to August 13, 2020 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and notes for the three and six months ended June 30, 2020 and 2019 (the "**Financial Statements**") and the audited consolidated financial statements and notes for the years ended December 31, 2019 and 2018. Additional information relating to the Corporation including the Corporation's Annual Information Form ("**AIF**") for the year ended December 31, 2019, is available under the Corporation's profile on SEDAR at www.sedar.com. All amounts are expressed in millions of Canadian dollars ("**CAD**"), 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 "Forward-Looking Statements" section of this MD&A for the Corporation's discussion on forward looking information including risk factors that could cause actual results to differ materially and the assumptions used underlying the forward-looking information. Definitions of certain non-IFRS financial measures are included on page 19 under the "Non-IFRS Measures" section.

Corporate Profile

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

High Arctic conducts its business operations in three separate operating segments: Drilling Services; Production Services; and Ancillary Services, supported corporately.

Drilling Services

The Drilling Services segment consists of High Arctic's drilling services in PNG including the provision of drilling services personnel to assist our customer's non-drilling operations. High Arctic has operated in PNG since 2007 and controls the largest fleet of tier-1 heli-portable drilling rigs in the country, with two owned rigs and two rigs managed under operating and maintenance contracts for one of the Corporation's customers. The Corporation also provides additional drilling and associated services in PNG as requested by its 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**") and the US 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. The revenue, expenses and assets related to the Q2-2019 acquisition of the Precision Drilling snubbing business have been reported within the Production Services segment.

Ancillary Services

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

In the following discussion, the three months ended June 30, 2020 may be referred to as the "**Quarter**" or "**Q2-2020**", and similarly the six months ended June 30, 2020 may be referred to as "**YTD-2020**". The comparative three months ended June 30, 2019 may be referred to as "**Q2-2019"** and similarly the six months ended June 30, 2019 may be referred to as "**YTD-2019**". References to other quarters may be presented as "**QX-20XX**" with X being the quarter/year to which the commentary relates.

Highlights

The following highlights the Corporation's results for Q2-2020 and YTD-2020:

- Focus on working capital management to preserve our cash balances and maintain a strong balance sheet during the current global coronavirus ("**COVID-19**") crisis has positioned High Arctic to be ready once restrictions loosen through the following:
  - Increased net cash balance by $5.2 million.
  - Strong working capital position of $49.7 million at June 30, 2020, and
  - Unused bank credit facility of $35.0 million.
- Revenue of $16.1 million and $55.7 million for the three and six months ended June 30, 2020 (2019 - $46.6 million and $93.1 million, respectively) and adjusted EBITDA of $1.2 million and $3.9 million (2019 - $4.0 million and $9.5 million) for the Quarter and YTD, respectively.
- On a year to date basis as compared to 2019, capital expenditures and business acquisition expenditures have been reduced by $12.0 million, dividends have been reduced by $3.4 million and cost reduction and control measures have been implemented throughout the organization.
- Year to date oilfield services expenses have been reduced by $31.7 million as compared to 2019. After the inclusion of $0.9 million in YTD-2020 restructuring costs, as well as $0.6 million in bad debt provision, general and administrative expenses have decreased by $0.1 million.
- Service delivery to our customers with safety of personnel and quality of service top of mind during this COVID-19 crisis, lifted the Canadian market share of Concord Well Servicing to 26% in Q2-2020.
- Benefits from the Canadian Emergency Wage Subsidy ("CEWS") were obtained, which provided $2.1 million toward wages of Canadian workers and was utilized to retain a capable workforce to service current and prospective customers now, and when restrictions loosen and markets improve.

The Corporation's strategic priorities for 2020 continue to include:

- Safety excellence and a focus on quality through global standards, including safeguarding our people against COVID-19.
- Reinforcement of existing core markets evidenced by top-tier customer market share in Canada and PNG.
- Cost control focused on operating cash flow while balancing strategic priorities, to emerge from the current conditions ready to reactivate and grow, and
- Capital stewardship characterized by disciplined working capital management and capital allocation to maintain value for shareholders including common share buybacks, where appropriate.

Outlook

High Arctic's Outlook dated March 12, 2020, outlined the instability which existed at that time due to COVID-19. As events unfolded we took very quick action to prepare for a serious disruption in economic growth and demand destruction. These steps included restructuring our work force, while ensuring the close relationships with our lender, customers and vendors were appropriately managed and maintained.

While the outlook for the global energy industry continues to be challenging, High Arctic has and is taking measures during this period of uncertainty to provide financial flexibility and reinforce our solid base of business. Commodity price increases at the end of June 2020 are signaling the likelihood of an increase in energy demand, moving forward from a very difficult time for the industry. With observations of second waves of COVID-19 in various communities around the world and the non-ceasing growth in cases in the US and elsewhere, it is entirely possible that the appreciation of commodity prices and improvement in price stability could be further compromised before a vaccine or other solutions is implemented. Resilience, adaptability, and seizing appropriate strategic opportunities will remain critical in the coming months and quarters.

We consider this an environment to continue to prudently conserve capital while remaining engaged with customers to implement sustainable strategies to deploy our assets on a continual basis. We are focussed on strategies that lead to cost efficiency, building upon our decision to combine management teams and generate positive cash flow in a depressed market. High Arctic has maintained adequate readiness of plant and personnel and is well positioned for an increase in activity. Our people continue to focus on quality as measured by safety performance excellence and long-term customer relationships.

In Papua New Guinea, the Corporation's Drilling Services are suspended, however, we continue to provide skilled personnel and rental services to assist our customers to maintain production while travel restrictions remain and tighten amid a late upswing in COVID-19 cases at the beginning of August, after relaxing the State of Emergency imposed in late March. We are working with major customers to plan an effective return to work amid ongoing and substantive constraints, leveraging off the acknowledgment of our demonstrated recent and long-term capacity as a PNG specialist contractor.

In Canada we have been busy working with our core, high value customers to pass on cost savings, secure contract extensions and maintain preferred contractor status. We have experienced a substantially better utilization than our peers and plan to use that position and our healthy balance sheet to invest in technology that will deliver on our customers needs for reliable, low cost well work solutions that reduce environmental impact while creating job opportunities for the new generation of oilfield workers. High Arctic is confident of increasing work driven in the near term by the well abandonment stimulus programs as the barriers to the Alberta Site Rehabilitation Program expansion start to dissipate, and are coupled with the positive work conducted in Canada suppressing the COVID-19 curve and our customers growing realization of the opportunity to deliver on ESG obligations while reducing end of life well abandonment cost liabilities. We are actively seeking out customer and service provider partners who share our value of the opportunity to execute services while delivering on ESG objectives.

High Arctic believes we are positioned to manage through these challenging times given our decisive actions and our continued focus on pruning unprofitable operations, chasing cost efficiencies, maintaining adequate readiness and delivering quality services in a socially responsible manner. The health of our balance sheet, our strong working capital position and the skill of our management team provide us the ability to weather the economic slowdown for some considerable time. Business combinations and acquisitions will be reviewed to the extent they strengthen our service base but will not be our primary focus.

Select Comparative Financial Information

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

	For the three months ended June 30		**For the six months ended June 30**	
($ millions, except per share amounts)	**2020**	2019	**2020**	2019
Revenue	**16.1**	46.6	**55.7**	93.1
EBITDA [(1)]	**1.4**	4.6	**6.9**	10.8
Adjusted EBITDA [(1)(3)]	**1.2**	4.0	**3.9**	9.5
Adjusted EBITDA as % of revenue	**8%**	9%	**7%**	10%
Operating loss	**(6.2)**	(2.9)	**(10.9)**	(4.7)
Net loss	**(6.0)**	(4.0)	**(8.2)**	(5.0)
Per share (basic and diluted) [(2)]	**(0.12)**	(0.08)	**(0.17)**	(0.10)
Funds provided from operations [(1)]	**0.9**	2.1	**2.9**	6.9
Per share (basic and diluted) [(2)]	**0.02**	0.04	**0.06**	0.14
Dividends	**-**	2.5	**1.6**	5.0
Per share (basic and diluted) [(2)]	**-**	0.05	**0.03**	0.10
Capital expenditures	**1.3**	4.3	**3.2**	6.9
Capital expenditures - acquisitions	-	8.3	-	8.3

(1) Readers are cautioned that EBITDA (Earnings before interest, tax, depreciation and amortization), Adjusted EBITDA, Adjusted net earnings, Funds provided from operations, and working capital do not have standardized meanings prescribed by IFRS – see "Non IFRS Measures" on page 19 for calculations of these measures.

(2) The number of common shares used in calculating net loss per share, funds provided from operations per share, dividends per share and shareholders' equity per share is determined as explained in Note 7 of the Financial Statements.

(3) Adjusted EBITDA includes the impact of wage subsidies (CEWS) received.

($ millions, except share amounts)	As at and for six months/ year ended June 30 2020	December 31 2019
Working capital [1]	**49.7**	35.8
Cash, end of period	**33.5**	9.3
Total assets	**243.7**	251.8
Long-term debt	**10.0**	-
Total long-term financial liabilities	**18.5**	9.1
Shareholders' equity	**200.4**	205.6
YTD/share (basic and diluted)[2]	**4.04**	4.11
Common shares outstanding, millions	**49.6**	49.6

(1) Readers are cautioned that EBITDA (Earnings before interest, tax, depreciation and amortization), Adjusted EBITDA, Adjusted net earnings, Funds provided from operations, and working capital do not have standardized meanings prescribed by IFRS – see "Non IFRS Measures" on page 19 for calculations of these measures.
(2) The number of common shares used in calculating net loss per share, funds provided from operations per share, dividends per share and shareholders' equity per share is determined as explained in Note 7 of the Financial Statements.

Responding to Recent Global Developments

The impact of volatile oil prices and COVID-19 has been very challenging. At the outset, and during Q2-2020, COVID-19 continued to have much of the global economy halted, with governments around the world attempting to balance the implementation of measures to contain the virus against the need to start opening up economies. As economies start to open up, the demand for crude oil along with other products and services will also increase, however the timing of these events continues to be uncertain.

Market pressures, movement restriction and the actions by the Organization of Petroleum Exporting Countries ("**OPEC**") and non-OPEC members, led by Saudi Arabia, returned some stability to the overall global supply of oil during Q2-2020. The emergence of China and other Asian nations from COVID-19 restrictions also resulted in a net increase in LNG imports, which coupled with an increase in energy use in developed nations improved natural gas demand. Notwithstanding the ongoing commodity price instability, closing benchmark crude oil prices at June 30,2020 have increased by 39% over March 31, 2020.

As customers continue to decrease their capital and other spending re-forecasts to manage through this crisis event, the market for our services will be under pressure, with an uncertain end date.

High Arctic will continue to act on opportunities such as government stimulated initiatives such as CEWS and abandonment and reclamation programs that are suitable and available to us.

High Arctic's quick adjustment to the severe financial impact of COVID-19 together with commodity price pressure implications, has resulted in measures to reduce certain cash outflows by approximately $25.0 million over prior-year 2019 levels including:

- A 54% reduction in capital expenditures, where YTD-2020 capital spending of $3.2 million compares to YTD-2019 capital spending of $6.9 million.
- The suspension of monthly shareholder dividends in March 2020 has decreased cash outflows by $2.5 million in Q2-2020 compared to Q2-2019.
- The Company was forced to downsize its workforce, where a total reduction of approximately 40% at executive, management and support personnel levels was made.
- Acceleration of changes to globalize processes and reduce fixed infrastructure costs, and
- Board Executive Committee oversight as the Corporation operates through the COVID-19 crisis and beyond.

High Arctic's focus remains on being well positioned to navigate through the uncertainty with capacity ready for deployment as markets recover and activity levels increase, and includes:

- Resilient emphasis on the safety and well being of our people through mature health, safety and environment policies.
- Renewal and extension of contracts at modest rate reductions with a core customer base in Canada including a term contract through Q3-2022 for well servicing with a large investment grade customer in western Canada.
- Continued support services to our major customer in PNG where we are contracted through Q3-2021 for heli-portable drilling services, and a ramp up in support operations for a large multi-national investment grade customer in PNG.

- Use of wage subsidy programs to maintain regional workforce strength while carefully controlling recertification and maintenance expenditures results in equipment poised for quick activation from all our regional bases.
- Our dominant market share and niche service offering positioned for liquified natural gas development with heli-portable drilling services in PNG, and snubbing services in western Canada, and
- Strong and improved liquidity, increasing $5.2 million to $68.5 million, with cash of $33.5 million combined with $35.0 million in Bank Facility borrowing capacity.

High Arctic's near-term outlook will continue to be impacted until such time as the COVID-19 pandemic stabilizes including the reduction of rebound shut-downs, world economies are able to heat back up, and when travel restrictions are removed. In addition, the impact of potential impairment charges, the increased risk of collectability of accounts receivable and measurement uncertainty associated with these considerations will continue to be relevant in future periods if conditions persist or worsen. The Corporation's operating plan provides options to prudently manage operations and preserve financial flexibility.

The Corporation's suspension of its monthly dividend in March 2020 will continue indefinitely.

High Arctic continues to maintain close working relations with its customers and focus on high quality service and customer service differentiation as an absolute imperative. These attributes have been, and continue to be, key principles for High Arctic throughout the energy industry economic cycle.

The Corporation remains acutely aware that the impact to our customers' capital spending and operating budgets and their ability to pay for work completed on a timely basis could have a significant impact on High Arctic's financial and operating results as the time period associated with the global slow-down extends beyond the Quarter. We continue to work closely with our customers to ensure credit and operating risks are minimized.

The Canadian federal government's $1.7 billion well abandonment and site reclamation stimulus plan announced in April 2020 has begun, with responsibility for fund distribution assigned to the British Columbia, Alberta and Saskatchewan provincial governments. High Arctic has directly applied for hundreds of wells across the first tranches of the Alberta controlled process, receiving only a handful of approvals as the early tranches focussed on above ground site reclamation and low complexity works. With tens of thousands of inactive oil and gas wells across western Canada, we expect that over the stimulus period, there will be meaningful opportunity for High Arctic to participate in the resulting work programs through our Production Services segment, as the government becomes more focussed on award grants and focus shifts to securing, isolating and capping wellbores.

Second Quarter 2020:

- High Arctic reported revenue of $16.1 million, incurred a net loss of $6.0 million and realized Adjusted EBITDA of $1.2 million during Q2-2020. This compares to Q2-2019, with revenue of $46.6 million, and a net loss of $4.0 million and Adjusted EBITDA of $4.0 million. Changes were mainly due to $30.5 million of reduced revenue, attributable predominantly to reduced drilling in PNG and production services activity in Canada, offset by reduced operating and administrative costs of $27.7 million compared to Q2-2019. During Q2-2019, $0.7 million of other revenue was recorded, which was not replicated in Q2-2020.
- CEWS provided $2.1 million in wage subsidy relief, of which $1.8 million related to Oilfield services expenses and $0.3 million to General and administrative expenses.
- Protocols regarding new and enhanced safety measures were initiated, both as legislated by various levels of government and as best practice to protect our customers, employees and the communities in which we provide our services.
- Utilization for High Arctic's 50 registered Concord Well Servicing rigs was 32% in the Quarter versus industry utilization of 9% (source: Canadian Association of Oilwell Drilling Contractors "**CAODC**").
- There were no dividends declared or paid in Q2-2020, compared to $2.5 million in Q2-2019 ($0.05 per share).
- Cash increased by $5.2 million during Q2-2020 as compared to a decrease of $8.3 million in Q2-2019.
- No further amounts were drawn on the Corporation's remaining $35.0 million loan facility, and
- High Arctic did not repurchase any shares during the Quarter.

Year to date 2020:

- High Arctic reported revenue of $55.7 million, incurred a net loss of $8.2 million and realized Adjusted EBITDA of $3.9 million YTD-2020. This compares to YTD-2019, which had revenue of $93.1 million, a net loss of $5.0 million and Adjusted EBITDA of $9.5 million. Changes were mainly attributable to $37.4 million of reduced activity and therefore revenue, offset by reduced operating and administrative costs of $31.8 million. Income tax amounts were also lower by $1.9 million, year over year. YTD-2020 results included $0.9 million in restructuring costs and additional bad debt provision of $0.6 million that did not exist YTD-2019.
- YTD-2020 dividends amounted to $1.6 million ($0.03 per share), compared to $5.0 million in YTD-2019 ($0.10 per share).
- Dividends were suspended in March 2020, which had amounted to approximately $0.8 million per month.
- High Arctic has not repurchased any common shares through the normal course issuer bid ("NCIB") YTD-2020.

Operating Segments and Results

($ millions, unless otherwise noted)	**Three months ended June 30 2020**	Three months ended June 30 2019	**Six months ended June 30 2020**	Six months ended June 30 2019
Revenue:				
Drilling Services	**$ 5.2**	$ 20.5	**$ 19.1**	$ 39.3
Production Services	**9.6**	21.0	**31.4**	43.8
Ancillary Services	**1.6**	5.9	**6.1**	11.6
Inter-segment eliminations	**(0.3)**	(0.8)	**(0.9)**	(1.6)
	$ 16.1	$ 46.6	**$ 55.7**	$ 93.1
Oilfield Service Operating Margin [(1)]				
Drilling Services	**$ 1.4**	$ 4.3	**$ 4.6**	$ 8.5
Production Services	**2.4**	-	**3.9**	2.1
Ancillary Services	**0.5**	3.8	**3.1**	6.7
	$ 4.3	$ 8.1	**$ 11.6**	$ 17.3
Oilfield Service Operating Margin Percentage [(1)]				
Drilling Services	**27%**	21%	**24%**	22%
Production Services	**25%**	-	**12%**	5%
Ancillary Services	**31%**	64%	**51%**	58%
	27%	17%	**21%**	19%

(1) See "Non-IFRS Measures" on page 19

Second Quarter 2020

- Despite the difficult operating environment, operating margin percentages increased from 17% to 27% comparing Q2-2020 to Q2-2019 as a result of CEWS cost recovery in combination with strict cost control measures. The margins in absolute dollar terms decreased from $8.1 million to $4.3 million, with production services margins up by $2.4 million, offset by $3.3 million and $2.9 million in ancillary services and drilling services declines, respectively.

Year to date 2020

- Operating margin percentages YTD-2020 increased from 19% YTD-2019 to 21% YTD-2020. Revenues decreased by $37.4 million compared to YTD-2019, with the impact of global upheaval caused by the COVID-19 pandemic and oil price volatility playing a major role in this reduction.
- YTD-2020 operating margins have been charged with $0.4 million of restructuring costs, with $0.3 million recorded in Q1-2020 and $0.1 million recorded in Q2-2020.

Drilling Services Segment

($ millions, unless otherwise noted)	Three months ended June 30 **2020**	2019	Six months ended June 30 **2020**	2019
Revenue	**$ 5.2**	$ 20.5	**$ 19.1**	$ 39.3
Oilfield services expense	**3.8**	16.2	**14.5**	30.8
Oilfield services operating margin [(1)]	**$ 1.4**	$ 4.3	**$ 4.6**	$ 8.5
Operating margin (%)	**27%**	21%	**24%**	22%

(1) See “Non-IFRS Measures” on page 19

The Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) and has an agreement to operate an additional two rigs (Rigs 103 and 104) on behalf of a major oil and gas exploration company in PNG.

During Q2-2020, Drilling Services revenue decreased 75% to $5.2 million from $20.5 million in Q2-2019 due to the cessation of drilling activity. Revenues generated included the provision of manpower and services to cold stack Rig 103 and support essential customer operations impacted by travel restrictions on foreign workers and contractors due to COVID-19. During the Quarter, Rigs 103, 104, 115 and 116 were all cold stacked, whereas during Q2-2019, both Rig 103 and 104 were operating.

YTD-2020, drilling services revenue decreased 51% to $19.1 million from $39.3 million for the same period in 2019. During the first half of 2020, the Corporation operated one rig for part of the first quarter, whereas during 2019 both Rig 103 and Rig 104 operated throughout the period. Rigs 103 and 104 are stacked and ready for redeployment upon customer notification, subject to COVID-19 restrictions.

Production Services Segment

($ millions, unless otherwise noted)	Three months ended June 30 **2020**	2019	Six months ended June 30 **2020**	2019
Revenue	**$ 9.6**	$ 21.0	**$ 31.4**	$ 43.8
Oilfield services expense	**7.2**	21.0	**27.5**	41.7
Oilfield services operating margin [(1)]	**$ 2.4**	$ -	**$ 3.9**	$ 2.1
Operating margin (%)	**25%**	0%	**12%**	5%

(1) See “Non-IFRS Measures” on page 19

Operating Statistics - Canada	Three months ended June 30 **2020**	2019	Six months ended June 30 **2020**	2019
Service rigs:				
Average fleet [(2)]	**50**	57	**51**	57
Utilization [(3)]	**32%**	54%	**46%**	54%
Operating hours	**14,759**	27,889	**41,657**	55,299
Revenue per hour ($)	**556**	606	**599**	620
Snubbing rigs:				
Average fleet [(4)]	**8**	18	**9**	18
Utilization [(3)]	**8%**	10%	**20%**	14%
Operating hours	**574**	1,565	**3,129**	4,490

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

Operating Statistics - US	Three months ended June 30 **2020**	2019	Six months ended June 30 **2020**	2019
Service rigs:				
Average fleet [2]	**2**	2	**3**	2
Utilization [3]	**5%**	51%	**27%**	40%
Operating hours	**99**	932	**1,213**	1,435
Revenue per hour ($)	**638**	997	**909**	1,001
Snubbing rigs:				
Average fleet [4]	**6**	5	**6**	5
Utilization [3]	**10%**	23%	**9%**	24%
Operating hours	**538**	1,063	**1,004**	2,144

(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 using the number of rigs registered with the CAODC during the period.

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

High Arctic's well servicing and snubbing operations are provided through its Production Services segment. These operations are primarily conducted in Canada in the WCSB and in the US 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.

Service rigs

During Q2-2020, overall service rig operating hours of 14,858 decreased by 48% compared to Q2-2019 at 28,821. Pricing continues to remain competitive, with average revenue per hour for the Concord service rigs in Canada decreasing by 8% to $556 per hour in the Quarter from $606 per hour in Q2-2019. Service rig hours in Canada decreased from 27,889 in Q2-2019 to 14,759 in Q2-2020, due to the shortened workdays from 12 hour days to 10 hour days for one of our customers, together with the overall slowdown impact of COVID-19. Notwithstanding the competitive market and consistent with prior quarters, the Concord rigs achieved well above Canadian industry utilization at 32% versus the 9% utilization generated by the industry's registered well servicing rigs in the Quarter (source: CAODC).

Service rig hours of 99 in the US decreased by over 800 hours compared to Q2-2019 as activity declined sharply with the impact of lower oil prices and COVID-19. Service rig revenue per hour in the US decreased from $997/hour in Q2-2019 to $638/hr in Q2-2020.

YTD-2020, Service rig hours in Canada decreased from 55,299 to 41,657 hours, with decreased revenue per hour going from $620/hr to $599/hr YTD-2020. In the US, service rig hours were down over 200 hours from 1,435 to 1,213, and revenue per hour moving from $1,001/hr to $909/hr.

Snubbing rigs

Activity for the Corporation's snubbing operations continues to be hampered over recent quarters due to prolonged low natural gas prices which has curtailed natural gas well completions for the Corporation's customers. Both Canadian and US snubbing well service operating hours decreased in Q2-2020 by 63% and 49%, respectively, as customers deferred discretionary spending on well completions and technically complex well workovers. Similarly, YTD operating hours in Canada and the US decreased by 30% and 53%, respectively.

Overall

Operating margin percentage for the Quarter increased from 0% to 25% compared to Q2-2019. YTD margins increased from 5% YTD-2019 to 12% YTD-2020. This is due to the concerted effort in 2020 to control and manage costs during the current economic environment, coupled with the impact of wage subsidies received. Conversely, Q2-2019 margins were lower as a result of extra costs incurred to expand into the US market, as well as incremental and planned maintenance costs that increased costs and pulled margins down.

Ancillary Services Segment

($ millions, unless otherwise noted)	Three months ended June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
Revenue	**$ 1.6**	$ 5.9	**$ 6.1**	$ 11.6
Oilfield services expense	**1.1**	2.1	**3.0**	4.9
Oilfield services operating margin (1)	**$ 0.5**	$ 3.8	**$ 3.1**	$ 6.7
Operating margin (%)	**31%**	64%	**51%**	58%

(1) See "Non-IFRS Measures" on page 19

The Ancillary Services segment consists of High Arctic's oilfield rental equipment in Canada and PNG, as well as its Canadian nitrogen operations.

During Q2-2020, the lack of significant well site work activity continued the down-turn in well site associated rentals in PNG and furthered the contraction in the worksite matting market, reducing overall revenue and curtailing operating margins. YTD-2020, results follow that which was explained for the Quarter.

General and Administrative ("G&A")

($ millions, unless otherwise noted)	Three months ended June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
G&A	**$ 3.1**	$ 4.1	**$ 7.7**	$ 7.8
% of revenue	**19%**	9%	**14%**	8%

G&A costs during Q2-2020 decreased by $1.0 million as compared to Q2-2019, largely due to reduced compensation costs as a result of restructuring, as well as $0.3 million received through CEWS, offset by $0.4 million of additional bad debt provision, quarter over quarter. As a percentage of revenue, G&A costs were 19% compared to 9% in Q2-2019, largely impacted by the reduction in revenues.

YTD-2020, G&A costs decreased by $0.1 million, which includes general cost reductions of $1.1 million, CEWS wage support of $0.3 million, offset by increased restructuring costs associated with severance during Q1-2020 of $0.5 million, increased bad debt expense of $0.6 million and $0.2 million in legal costs that were incurred in pursuit of now discontinued acquisition opportunities, as well as general corporate matters compared to YTD-2019. YTD-2020 G&A costs as a percentage of revenue were 14% compared to 8% YTD-2019, impacted heavily by the reduction in revenues.

High Arctic remains committed to ensuring that G&A costs are managed and balanced within the overall strategic plan for the Corporation.

Depreciation

Depreciation expense on property and equipment and right-of-use assets totaled $7.5 million in Q2-2020, and $14.8 million YTD-2020, compared to $6.8 million and $13.8 million for Q2-2019 and YTD-2019, respectively.

Share-based Compensation

Share-based compensation expense is the result of the charge to income over the service period relating to option or unit plans which contemplate the issuance of common shares upon vesting. The methodology used typically front end loads the expense in the early portion of the expense realization. During Q2-2020 and YTD-2020, share-based compensation amounted to a recovery of $0.1 million and $nil, respectively (Q2-2019 and YTD-2019 - $0.1 million and $0.4 million, respectively). The restructuring during 2020 created recoveries as forfeitures influence the resulting expense.

During Q2-2020 and YTD-2020, 752,499 Performance share units were granted (Q2-2019 and YTD-2019 – nil). In addition, during Q2-2020 and YTD-2020, 195,689 Deferred share units were granted (Q2-2019 and YTD-2019 – nil).

Foreign Exchange Transactions

The Corporation has exposure to US dollar ("**USD**") fluctuations and other currencies such as the PNG Kina ("**PGK"** or **"Kina**") through its international operations. As a result, the Corporation is exposed to foreign exchange gains and losses through the settlement of foreign currency denominated transactions, which is recorded in profit and loss, as well as the conversion of the Corporation's subsidiaries with functional currencies other than CAD, into CAD for financial reporting presentation purposes, which is recorded as part of other comprehensive income (loss), within equity.

Foreign currency denominated transactions are translated into CAD using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than the entity's functional currency are translated at period-end exchange rates, with foreign exchange gains or losses recorded in the consolidated statements of earnings (loss).

Conversion of High Arctic's net investment in foreign subsidiaries also creates foreign currency fluctuations. The value of these net investments will increase or decrease based on fluctuations in the USD relative to CAD. These gains and losses are unrealized until such time that High Arctic divests its investment in the foreign subsidiary and are recorded in other comprehensive income (loss) as a foreign currency translation gains or losses.

The average CAD to USD exchange rate for the Quarter was $1.38 vs $1.31 during Q2-2019. As at June 30, 2020, the CAD to USD exchange rate was $1.36 vs $1.42 at March 31, 2020 and $1.30 as at December 31, 2019.

The impact of exchange rates for the Quarter resulted collectively in a $0.1 million foreign exchange gain (Q2-2019 - $nil) being recorded in the statements of earnings (loss) on various foreign currency denominated transactions and on the translation of foreign denominated monetary assets and liabilities. Similarly, YTD-2020, $0.2 million in foreign exchange gains were recorded (YTD-2019 - $0.2 million gain).

The fluctuation of USD vs CAD also resulted in a translation loss of $3.9 million for the Quarter (Q2-2019 – $2.0 million loss) associated with the translation of subsidiaries with functional currencies that are not CAD. These translation amounts are recorded in other comprehensive income (loss). Similarly, YTD-2020, $4.6 million was recorded as a translation gain (YTD-2019 - $5.0 million loss).

The Corporation does not currently hedge its foreign exchange transactions or exposure.

Interest and Finance Expense

	Three months ended June 30		Six months ended June 30	
($ millions)	**2020**	2019	**2020**	2019
Interest – bank loan	**$ 0.1**	$ -	**$ 0.2**	$ -
Finance expense – lease liabilities	**0.1**	-	**0.2**	0.1
Other interest/finance expense	**0.1**	0.2	**0.2**	0.3
Total	**$ 0.3**	$ 0.2	**$ 0.6**	$ 0.4

During the Quarter, $0.1 million of interest expense was incurred on the bank loan, which remained constant at $10.0 million. No bank loan interest was recorded in 2019, as no long-term debt was outstanding during that time.

Finance expense on lease liabilities associated with the time value of money of $0.1 million was recorded during the Quarter (Q2-2019 – less than $0.1 million). Similarly, YTD-2020, $0.2 million was recorded as finance expense on lease liabilities (YTD-2019 - $0.1 million).

Other interest amounted to $0.1 million for the Quarter and $0.2 million YTD-2020 (Q2-2019 - $0.2 million, YTD-2019 - $0.3 million).

Other Comprehensive Income (Loss)

As discussed above under Foreign Exchange Transactions, the Corporation recorded a $3.9 million foreign currency translation loss associated with subsidiaries with functional currencies other than CAD in other comprehensive income for the Quarter (Q2-2019 - $2.0 million loss). Similarly, YTD-2020, the Corporation recorded a $4.6 million foreign currency translation gain (YTD-2019 - $5.0 million loss).

For the Quarter, this occurred due to the strengthening of the CAD to the USD between Q1-2020 and Q2-2020. YTD, the CAD weakened compared to the USD at June 30, 2020 relative to December 31, 2019, and results in a net gain on the net assets held in the subsidiaries with USD as their functional currency.

Liquidity and Capital Resources

($ millions)	**Three months ended June 30 2020**	2019	**Six months ended June 30 2020**	2019
Cash provided by (used in):				
Operating activities	**$ 7.8**	$ 8.9	**$ 16.4**	$ 8.9
Investing activities	**(1.5)**	(12.3)	**0.4**	(13.7)
Financing activities	**(0.4)**	(4.8)	**6.7**	(10.6)
Effect of exchange rate changes on cash	**(0.7)**	(0.1)	**0.7**	(1.4)
Increase (decrease) in cash	**$ 5.2**	$ (8.3)	**$ 24.2**	$ (16.8)

($ millions, unless otherwise noted)	**As at June 30 2020**	December 31 2019
Working capital [(1)]	**$ 49.7**	$ 35.8
Working capital ratio [(1)]	**4.4 : 1**	2.3 : 1
Net cash [(1)]	**23.5**	9.3
Undrawn availability under debt facilities	**35.0**	45.0

(1) See "Non-IFRS Measures" on page 19

The Bank of PNG continues to encourage the use of the local market currency, Kina. Due to High Arctic's requirement to transact with international suppliers and customers, High Arctic has received approval from the Bank of PNG to maintain its USD account within the conditions of the Bank of PNG currency regulations. The Corporation continues to use PGK for local transactions when practical. Included in the Bank of PNG's conditions is for PNG drilling contracts to be settled in PGK, unless otherwise approved by the Bank of PNG for the contracts to be settled in USD. The Corporation has received such approval for its existing contracts with its key customers in PNG. The Corporation will continue to seek Bank of PNG approval for future customer contracts to be settled in USD 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 in future, the Corporation's PNG drilling contracts will be settled in PGK which would expose the Corporation to exchange rate fluctuations related to the PGK. In addition, this may delay the Corporation's ability to receive USD which may impact the Corporation's ability to settle USD denominated liabilities and repatriate funds from PNG on a timely basis. The Corporation also requires the approval from the PNG Internal Revenue Commission ("**IRC**") to repatriate funds from PNG and make payments to non-resident PNG suppliers and service providers. While delays can be experienced for the IRC approvals, such approvals have been received in the past.

Operating Activities

Cash provided from operations of $7.8 million for the Quarter (Q2-2019 - $8.9 million) resulted from $0.9 million of funds provided from operations (Q2-2019 - $2.1 million), as well as $6.9 million due to working capital changes (Q2-2019 - $6.8 million), predominantly the collection of accounts receivable of over $17.0 million, offset by payments to vendors of $8.9 million during the Quarter.

YTD-2020, cash provided from operations amounted to $16.4 million (YTD-2019 - $8.9 million), with funds provided from operations amounting to $2.9 million (Q2-2019 - $6.9 million), where the collection of approximately $23.0 million of accounts receivable, offset by payments to vendors of $10.5 million were the primary reasons for the increase in cash.

Investing Activities

During the Quarter, the Corporation's cash used in investing activities amounted to $1.5 million (Q2-2019 – use of $12.3 million). Capital expenditures during the Quarter of $1.3 million (Q2-2019 - $4.3 million) accounted for the majority of this activity. Q2-2019 included cash used of $8.3 million associated with the acquisition of the snubbing business from another company.

YTD-2020, cash provided from investing activities totalled $0.4 million (YTD-2019 – use of $13.7 million). YTD-2020 capital expenditures amounted to $3.2 million (YTD-2019 - $6.9 million), proceeds of disposal were $4.9 million (YTD-2019 - $1.4 million), with working capital changes representing the balance of the change. YTD-2019 included the business acquisition amounting to $8.3 million, as discussed above.

Financing Activities

During the Quarter, the Corporation did not draw further on its available long-term debt facility. YTD-2020, $10.0 million of the available $45.0 million long-term debt facility has been drawn. No long-term debt existed at June 30, 2019.

High Arctic suspended dividends in March 2020, and as such no dividends were paid during Q2-2020. YTD-2020, $1.6 million in dividends were paid to shareholders, down $3.4 million from $5.0 million YTD-2019.

No common share buy-backs were completed in the Quarter or YTD-2020, compared to $1.8 million and $4.7 million that were purchased and cancelled in Q2-2019 and YTD-2019, respectively, under the Normal Course Issuer Bid ("**NCIB**").

Credit Facility

As noted above, the Corporation has drawn $10.0 million of the $45.0 million revolving loan facility available, which matures on August 31, 2021. 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.

The Corporation's loan facility is subject to two financial covenants which are reported to the lender on a quarterly basis. As at June 30, 2020, the Corporation remains in compliance with these two financial covenants under the credit facility.

The first covenant requires the Funded Debt to Covenant EBITDA ratio to be under 3.0 to 1.0, and the second covenant requires Covenant EBITDA to Interest Expense ratio to be a minimum of 3.0 to 1.0. Both are calculated on the last day of each fiscal quarter on a rolling four quarter basis.

The covenant calculations at June 30, 2020 are:

Covenant	Required	**As at June 30, 2020**
Funded debt to Covenant EBITDA (1)(2)	3.0 : 1 Maximum	**0.75 : 1**
Covenant EBITDA to Interest expense (2)	3.0 : 1 Minimum	**19.17 : 1**

(1) Funded debt to Covenant EBITDA is defined as the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing four quarters. Funded debt is the amount of debt provided and outstanding at the date of the covenant calculation.

(2) EBITDA for the purposes of calculating the covenants, "Covenant EBITDA," is defined as net income plus interest expense, current tax expense, depreciation, amortization, future income tax expense (recovery), share based compensation expense less gains from foreign exchange and sale or purchase of assets. Interest expense excludes an impact from IFRS 16.

There have been no changes to these financial covenants subsequent to June 30, 2020 to the date of this MD&A.

Commitments and Contingencies

As part of the Corporation's contractual rig management and operations, the Corporation has been supplied an inventory of spare parts with a total value of $7.8 million (December 31, 2019 - $7.4 million) by a customer for the Corporation's operations in PNG. The inventory is owned by this party 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.

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 and units under the Corporation's approved equity compensation plans.

As at June 30, 2020, there were 49,637,450 issued and outstanding common shares. No further common shares have been issued or repurchased since June 30, 2020 to the date of this MD&A. In addition, 345,000 stock options were outstanding at an average exercise price of $3.73, as well as 986,944 units under the Corporation's Performance Share Unit Plan and 354,191 units under the Deferred Share Unit plan. To the date of this MD&A, no further stock options or units have been issued.

No preferred shares have been issued by the Corporation and therefore none are outstanding at June 30, 2020.

On November 28, 2019 the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,552,229 common shares, representing approximately 10 percent of the Corporation's public float, under a NCIB.

The NCIB is valid for one year and will expire on December 1, 2020. No common shares have been purchased and cancelled under this NCIB up to and including August 13, 2020. In addition, no common or preferred shares were issued subsequent to June 30, 2020 up to and including August 13, 2020.

Quarterly Financial Review

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

	2020		2019				2018	
($ millions, except per share)	Q2	Q1	Q4	Q3	Q2 [3]	Q1	Q4 [2]	Q3 [2]
Revenue	16.1	39.6	42.8	49.6	46.6	46.5	47.8	54.7
Adjusted EBITDA [1]	1.2	2.7	3.6	6.3	4.0	5.5	6.6	17.4
Net earnings (loss)	(6.0)	(2.2)	(2.7)	(1.1)	(4.0)	(1.0)	(2.3)	7.5
Per share - basic	*(0.12)*	*(0.04)*	*(0.06)*	*(0.02)*	*(0.08)*	*(0.02)*	*(0.04)*	*0.14*
Adjusted net earnings (loss)[1][2][3]	(6.0)	(2.2)	(2.7)	(1.5)	(4.0)	(1.0)	(2.3)	7.7
Per share - basic	*(0.12)*	*(0.04)*	*(0.05)*	*(0.02)*	*(0.08)*	*(0.02)*	*(0.4)*	*0.15*
Funds provided from operations [1]	0.9	2.0	3.1	5.3	2.1	4.8	2.0	14.3

(1) See "Non-IFRS Measures" on page 19
(2) Adjusted net earnings (loss) in 2018 excludes $0.6 million and $0.2 million, respectively, of expenses incurred related to the closing of the Corporation's Blackfalds facility and transaction costs related to the Powerstroke Acquisition.
(3) Adjusted net earnings (loss) in Q2 2019 excludes the impact of $0.7 million of income recognized related to the write down of the contingent liability associated with the Powerstroke acquisition in 2018.
(4) Adjusted EBITDA includes the impact of wage subsidies (CEWS) received.

Various factors have affected the quarterly profitability of the Corporation's operations. During Q2-2020, High Arctic revenues decreased by 59% compared to Q1-2020, precipitated by the negative impact of the COVID-19 pandemic which began in late Q1-2020. During Q1-2020, the Corporation undertook restructuring in an effort to manage reduced revenue and operating cash flow. The Corporation's outlook has been significantly impacted by the global supply imbalance of oil and natural gas that has been created by both OPEC's decisions on supply and price and the unprecedented decrease in global energy demand resulting from measures taken by governments around the world to control the recent pandemic.

This situation is compounded by the continued Canadian oil and gas industry's inability to obtain global market access for its products, which has been a reality for the past number of years.

The take-or-pay contract for Rig 116 expired on November 2, 2018 resulting in reduced revenue and EBITDA in 2019. The Corporation's results have also grown with the Powerstroke and Saddle Well Services acquisitions which closed in 2018 and most recently the acquisition of Precision Drilling's snubbing business in April 2019.

Seasonal conditions impact the Corporation's Canadian operations whereby frozen ground during the winter months tends to provide an optimal environment for drilling and many well servicing activities and consequently first quarter activity 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 operations 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 USD to CAD exchange rate.

	2020		2019				2018	
($)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and natural gas prices								
(Averages for the quarterly periods):								
Brent Crude Oil (USD $/bbl) (1)	33	51	63	62	63	64	68	76
Japan LNG (USD $/mmbtu) (2)	10.07	10.00	10.04	10.62	9.91	11.87	11.69	10.73
USD/CAD average exchange rate (1)	1.38	1.34	1.32	1.32	1.31	1.34	1.32	1.31

(1) Source: Sproule
(2) Source: YCharts

The Corporation's PNG activity has historically been based on longer term, USD denominated contracts and therefore is less affected over the short term by volatility in oil and gas prices. The USD/CAD exchange rate has remained strong over the last eight quarters which has benefited the Corporation's financial results.

Activity levels for the Corporation's major customers in PNG are less dependent on short term fluctuations in oil and gas prices and instead are 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 Japan 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.

	2020		2019				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and natural gas prices								
($ Avg for the period):								
West Texas Intermediate ("WTI") (USD $/bbl) (1)	28	46	57	56	55	55	59	69
West Canada Select ("WCS") (CAD $/bbl)(1)	22	34	54	58	55	57	37	62
Canadian Light Sweet Oil ("CLS") (CAD $/bbl) (1)	31	52	67	69	64	67	48	76
AECO (CAD $/mmbtu) (1)	2.00	2.03	2.48	1.00	0.61	2.62	1.62	1.28
Other industry indicators:								
Total wells drilled in W. Canada(2)	746	*1,179*	1,175	1,407	778	1,546	1,380	1,528
Avg service rig utilization rates(2)	9%	*36%*	33%	55%	35%	48%	37%	41%
Avg drilling rig utilization rates (2)	15%	31%	23%	23%	13%	29%	28%	30%

(1) Source: Sproule
(2) Source: CAODC

In Q2-2020, WTI, WCS and CLS average prices were significantly lower than historical averages as a result of the fall-out of the COVID-19 pandemic which began in Q1-2020, as well as the impact of over-supply, substantively full storage facilities, softening demand and as a result, downward pressure on pricing. However, closing spot prices have lifted, where WTI at June 30, 2020 closed at $39, compared to $28 at March 31, 2020. A similar trajectory resulted for WCS.

Pressure on oil and natural gas prices have had a material impact on drilling and well completion activities in Canada since 2015, given the lack of take away pipeline capacity prior to the COVID-19 pandemic and continue to collectively curtail industry activity levels relative to historical industry activity levels. Q2-2020 average industry rig utilization rates were higher than Q2-2019, however, the significant reduction in active rigs to record lows, period over period, has significantly impacted these metrics.

Financial Risk Management

Financial and other risks

The Corporation is exposed to financial risks arising from its financial assets and liabilities. This includes the risk associated with the recent development relating to COVID-19 and other such pandemics in the future. Outside of a pandemic risk, financial risks include market risk, interest rate risk, foreign currency risk, risks associated with foreign currency restrictions and operations, commodity price risk, credit risk and liquidity risk.

Market and other related 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, commodity prices and foreign currency exchange rates.

Pandemic risk is the risk that operations and/or administration are forced to run at less than full capacity due to an absence or reduction of members of the workforce, either through forced closures by government both within countries and also across national borders, by internally imposed rotational schedules and/or quarantine or illness of the workforce. Further, cyber risks increase as employees work from home. Such restrictions could significantly impact the ability for the Corporation to operate, and therefore impact financial results.

Interest rate risk and available swaps

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 the long-term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates.

The Corporation has available to it an Interest rate swap, which is included within its' existing facility agreement. The interest rate swap allows High Arctic to fix the rate of interest payable up to a maximum of $20 million of the loaned amount. No swaps have been undertaken by the Corporation at June 30, 2020.

Foreign currency risk and PNG foreign currency restrictions

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 effectively transacted in USD and the Corporation does not actively engage in foreign currency hedging. For the three and six-month period ended June 30, 2020, a 0.10 basis point change in the value of the Canadian dollar relative to the USD would have resulted in change in net earnings (loss) amounting to $0.2 million and $0.1 million as a result of changes in foreign exchange.

The Corporation's ability to repatriate funds from PNG is controlled by the PNG government through their central bank. There are currently monetary and currency exchange control measures in PNG that can impact the ability to repatriate funds, as well as establish requirements to transact in the local PNG currency (Kina or PGK). As at June 30, 2020 USD $3.0 million was on deposit with a large international bank in PNG. The Bank of PNG ("**BPNG**") has provided approval for High Arctic to maintain a USD bank account in accordance with the BPNG currency regulations. The Corporation has received approval from the BPNG for its existing contracts with its key customers in PNG to be denominated and settled in USD. However, if such approval is withdrawn in the future, these funds may be converted into PGK 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 PGK.

The BPNG currency regulations also limit the amount of foreign currency that companies can maintain in order to meet their forecasted three-month cash flow requirements, with excess funds required to be held in PGK. While no significant issues have been experienced to date, there is no guarantee such restrictions will not exist or will not impact the Corporation's ability to transact or repatriate funds.

The Corporation's financial instruments have the following foreign exchange exposure at June 30, 2020:

($ millions)	USD (1)	PGK (2)	Australian Dollars ("**AUD**") (3)
Cash	$ 12. 9	$ 1.5	$ 0.3
Accounts receivable	3.3	8.0	-
Accounts payable and accrued liabilities	(4.2)	(2.9)	(0.1)
Total	$ 12.0	$ 6.6	$ 0.2

(1) As at June 30, 2020, one USD was equivalent to 1.36 CAD.
(2) As at June 30, 2020, one PGK was equivalent to 0.39 CAD.
(3) As at June 30, 2020, one AUD was equivalent to 0.94 CAD.

Commodity price risk

Commodity price risk is the risk that the Corporation's future cash flows will fluctuate due to changes in demand for High Arctic's services, where many of the Corporation's customers are oil and gas producers. High Arctic's customer's activity and strategic decisions are impacted by the fluctuations of oil and gas pricing.

These prices are sensitive to not only the relationship between the Canadian and US dollar, but also local, regional and world economic events, such as implications from declining oil demand and over supply, as well as the current COVID pandemic which creates a scenario of both downward and fluctuating price pressure. The Corporation currently has no commodity price mitigation contracts in place.

Credit risk, customers and economic dependence

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 is predominantly with customers who explore for and develop petroleum reserves and are subject to industry credit risk consistent with the industry. The Corporation assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding.

The Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

The Corporation uses the historical default rates within the industry between investment grade and non-investment grade customers, as well as forward looking information to determine the appropriate loss allowance provision.

The Corporation views the credit risks on these amounts as consistent with 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 two large multinational/regional customers (2019 – two) which individually accounted for greater than 10% of its consolidated revenues during the three and six-month period ended June 30, 2020. Sales to these two customers were approximately $5.8 million and $5.1 million for the three-month period ended June 30, 2020 (Q2-2019 - $22.6 million and $6.4 million), and $ 17.6 million and $10.8 million for the six-month period ended June 30, 2020 (YTD-2019 - $46.1 million and $12.7 million).

As at June 30, 2020, these two customers represented 43.3% of outstanding accounts receivable (December 31, 2019 – two customers represented a total of 41.0% of accounts receivable). Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with these customers.

As a result of the economic pressures currently faced by the oil and gas industry, together with the implications of the COVID-19 pandemic, a more thorough assessment of accounts receivable continues to be undertaken to take this changing environment into consideration.

The aging of the Corporation's accounts receivable is as follows:

($ millions)	As at June 30 2020	December 31 2019
Days outstanding:		
Less than 31 days	**9.6**	14.6
31 to 60 days	**1.2**	16.0
61 to 90 days	**2.0**	3.8
Greater than 90 days	**3.6**	5.6
Allowance for doubtful accounts	**(0.8)**	(0.2)
Total	**15.6**	39.8

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.

Liquidity risk is currently being impacted by uncertainty within capital markets given the COVID-19 pandemic on global economies, economic recession possibilities, contraction of available capital and reliance on continued fiscal stimulus by governments around the world.

The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, working capital management, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Corporation seeks to manage its financing based on the results of these processes.

Further, the Corporation currently has $35.0 million in remaining availability under its' credit facility to enable execution of strategic direction.

Critical Accounting Judgements and Estimates

Information on the Corporation's critical accounting estimates and judgements can be found in the notes to the annual audited consolidated financial statements for the year ended December 31, 2019.

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of COVID-19. The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in financial markets.

The pandemic adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil and natural gas, impacting High Arctic's customers and High Arctic's business.

Crude oil prices have also been severely impacted by increased global supply due to disagreements over production restrictions between the OPEC and non-OPEC members, primarily Saudi Arabia and Russia. As a result of declining commodity prices and financial markets, the Corporations' share price and market capitalization significantly declined from December 31, 2019.

Subsequently, some stabilization of crude oil and natural gas markets has occurred, however this has not translated into a substantive increase in oilfield service activity and the Corporations' share price and market capitalization remain depressed.

Although economies have slowly started to re-open, some nations have observed second waves of infection and as such, the full extent of the impact of COVID-19 on the Corporation's operations and future financial performance continues to be unknown. It will depend on future developments that are uncertain and unpredictable, including the duration, spread and possible re-occurrences of COVID-19, its impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the changes to or the severity of the virus.

These uncertainties may persist beyond when it is determined how to contain the virus or how to treat its impact.

The outbreak presents uncertainty and risk with respect to the Corporation, its performance, and estimates and assumptions used by Management in the preparation of financial results. A full list of the key sources of estimation uncertainty can be found in the Corporation's annual Consolidated Financial Statements for the year ended December 31, 2019.

The outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare the Consolidated Financial Statements, particularly related to:

i. Recoverable amounts of cash-generating units (“**CGUs**”) as it relates to impairment testing on property and equipment.
ii. Estimated credit losses as it relates to accounts receivable from customers who operate in the energy sector and are equally impacted by these same COVID-19 issues. See Credit Risk discussion within this MD&A.
iii. Tax provisions where estimates are made of annual taxable income and estimates regarding recoverability of deferred tax assets.

Disclosure Controls and Procedures (“DC&P”) and Internal Controls over Financial Reporting (“ICFR”)

As at June 30, 2020, an evaluation of the effectiveness of High Arctic’s DC&P as defined under the rules adopted by the Canadian securities regulatory authorities was carried out under the supervision and with the participation of management, including the Chief Executive Officer (“**CEO**”) and the Chief Financial Officer (“**CFO**”). Based on this evaluation, the CEO and CFO concluded that as at June 30, 2020, the design and operation of the Corporation’s DC&P was effective.

ICFR is a process designed by or under the supervision of management and effected by the Board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate ICFR, which no matter how well designed, has inherent limitations and can provide only reasonably assurance with respect to the preparation and fair presentation of published financial statements. Under the supervision and with the participation of the CEO and CFO, management conducted an evaluation of the effectiveness of its ICFR as at June 30, 2020.

Based on this evaluation, the CEO and CFO concluded that as at June 30, 2020, High Arctic’s ICFR was effective. The Internal Control – Integrated Framework (2013) as issued by the Committee of Sponsoring Organizations of the Treadway Commission was utilized for this purpose. As at June 30, 2020 there was no change in our ICFR that materially affected or is reasonably likely to materially affect our ICFR.

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 December 31, 2019 AIF, which are specifically incorporated by reference herein. The AIF is available on SEDAR at www.sedar.com, copies 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:

Earnings before interest, taxes, depreciation and amortization (“EBITDA”)

Management believes that, in addition to net earnings reported in the consolidated statement of loss and comprehensive loss, EBITDA 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.

Covenant EBITDA

Covenant EBITDA, as defined in High Arctic's credit facility agreement, is used in determining the Corporation's compliance with its covenants. Covenant EBITDA is defined as net income (loss) plus interest expense, current tax expense, depreciation, amortization, future income tax expense (recovery), share based compensation expense less gains from foreign exchange and sale or purchase of assets. Interest expense excludes any impact of IFRS 16.

Adjusted EBITDA

Adjusted EBITDA is calculated based on EBITDA (as defined above) prior to the effect of share-based compensation, gains or losses on sales or purchases of assets or investments, business acquisition costs, impairment charges, other costs related to consolidating facilities, excess of insurance proceeds over costs and foreign exchange gains or losses. Note that adjusted EBITDA is inclusive of wage subsidies (CEWS) received.

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 (loss) or other measures of financial performance calculated in accordance with IFRS.

The following table provides a quantitative reconciliation of consolidated net earnings to EBITDA and Adjusted EBITDA for the three and six months ended June 30, 2020 and 2019:

	Three months ended June 30		**Six months ended June 30**	
($ millions)	**2020**	2019	**2020**	2019
Net loss	**$ (6.0)**	$ (4.0)	**$ (8.2)**	$ (5.0)
Add:				
Interest and finance expense	**0.3**	0.2	**0.6**	0.4
Income taxes	**(0.4)**	1.6	**(0.3)**	1.6
Depreciation	**7.5**	6.8	**14.8**	13.8
EBITDA	**$ 1.4**	$ 4.6	**$ 6.9**	$ 10.8
Adjustments to EBITDA:				
Other income	**-**	(0.7)	**-**	(0.7)
Share-based compensation	**(0.1)**	0.1	**-**	0.4
Gain on sale of property and equipment	**-**	-	**(2.8)**	(0.8)
Foreign exchange gain	**(0.1)**	-	**(0.2)**	(0.2)
Adjusted EBITDA	**$ 1.2**	**$ 4.0**	**$ 3.9**	$ 9.5

Adjusted net earnings (loss)

Adjusted net earnings (loss) is calculated based on net earnings (loss) prior to the effect of costs not incurred in the normal course of business, such as consolidating facilities, impairment, gains and transaction costs incurred for acquisitions. Management utilizes Adjusted net earnings (loss) to present a measure of financial performance that provides for better comparability. Adjusted net earnings (loss) as presented is not intended to represent net earnings (loss) or other measures of financial performance calculated in accordance with IFRS.

Adjusted net earnings (loss) per share and Adjusted net earnings (loss) per share – diluted are calculated as Adjusted net earnings (loss) divided by the number of weighted average basic and diluted shares outstanding, respectively.

The following provides the quantitative reconciliation of net loss to Adjusted net loss for the three and six months ended June 30, 2020 and 2019:

($ millions)	**Three months ended June 30** **2020**	2019	**Six months ended June 30** **2020**	2019
Net loss	**$ (6.0)**	$ (4.0)	**$ (8.2)**	$ (5.0)
Adjustments:				
Other income	**-**	(0.7)	**-**	(0.7)
Adjusted net loss	**$ (6.0)**	$ (4.7)	**$ (8.2)**	$ (5.7)

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 net earnings (loss) 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.

The following table provides a quantitative calculation of Oilfield Services Operating Margin and %:

($ millions, unless otherwise noted)	**Three months ended June 30** **2020**	2019	**Six months ended June 30** **2020**	2019
Revenue	**$ 16.1**	$ 46.6	**$ 55.7**	$ 93.1
Less:				
Oilfield services expense	**11.8**	38.5	**44.1**	75.8
Oilfield services operating margin	**$ 4.3**	$ 8.1	**$ 11.6**	$ 17.3
Oilfield services operating margin %	**27%**	17%	**21%**	19%

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 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, 2020 and 2019:

($ millions)	Three months ended June 30 2020	2019	Six months ended June 30 2020	2019
Net cash generated from operating activities	**$ 7.8**	$ 8.9	**$ 16.4**	$ 8.9
Less:				
Changes in operating non-cash working capital	**(6.9)**	(6.8)	**(13.5)**	(2.0)
Funds provided from operations	**$ 0.9**	$ 2.1	**$ 2.9**	$ 6.9

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 2020	December 31 2019
Current assets	**$ 64.5**	$ 62.7
Less:		
Current liabilities	**(14.8)**	(26.9)
Working capital	**$ 49.7**	$ 35.8

Net cash

Net cash is used by management to analyze the amount by which cash and cash equivalents (if applicable) 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 table provides a quantitative reconciliation of cash to net cash as follows:

($ millions)	As at June 30 2020	December 31 2019
Cash	**$ 33.5**	$ 9.3
Less:		
Long-term debt	**(10.0)**	-
Net cash	**$ 23.5**	$ 9.3

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”, “prepare”, “determine” 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; initiatives to reduce cash outlays by $25.0 million over 2019 levels; continued safety performance excellence; realization of work from Site Rehabilitation Programs; oversight of working capital to maintain a strong balance sheet; estimated capital expenditure programs for fiscal 2020 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; the Corporation’s ability to maintain a USD bank account and conduct its business

in USD in PNG; and the Corporation's ability to repatriate excess funds from PNG as approval is received from the Bank of PNG and the PNG Internal Revenue Commission.

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; 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.

Abbreviations

The following is a summary of abbreviations used in this Management Discussion and Analysis:

AIF	- Annual information form
AUD	- Australian dollars
bbl	- Barrel
CAD	- Canadian dollars
CAODC	- Canadian Association of Oilwell Drilling Contractors
CEWS	- Canada Emergency Wage Subsidy
CLS	- Canadian Light Sweet
DCP	- Disclosure controls and procedures
EBITDA	- Earnings before interest, tax, depreciation and amortization
ESG	- Environmental, Social and Corporate Governance
ICFR	- Internal controls over financial reporting
IFRS	- International Financial Reporting Standards
IRC	- Internal Revenue Commission of PNG
LNG	- Liquid natural gas
MD&A	- Management discussion and analysis
mmbtu	- Million British thermal units
NCIB	- Normal course issuer bid
OPEC	- Organization of petroleum exporting countries
PGK	- Papua New Guinea Kina
PNG	- Papua New Guinea
US	- United States
USD	- United States dollars
WCS	- West Canada Select
WCSB	- Western Canadian sedimentary basin
WTI	- West Texas Intermediate