



## Management's Discussion and Analysis For the Three Months Ended March 31, 2018 and 2017

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 dated May 10, 2018 and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2018 and 2017 (the "Financial Statements") and the audited consolidated financial statements for the years ended December 31, 2017 and 2016. Additional information relating to the Corporation including the Corporation's Annual Information Form ("AIF") for the year ended December 31, 2017, is available under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com). All amounts are expressed in millions of Canadian dollars, unless otherwise noted, and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned that this MD&A contains certain forward-looking information. Please refer to the end of this MD&A for the Corporation's disclaimer on forward-looking information and statements. The definitions of certain non-IFRS financial measures are included on page 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 March 31		
	2018	2017	% Change
Revenue	53.7	64.8	(17%)
EBITDA <sup>(1)</sup>	12.7	21.0	(40%)
Adjusted EBITDA <sup>(1)</sup>	13.7	21.0	(35%)
Adjusted EBITDA % of revenue	26%	32%	(20%)
Operating earnings	6.7	14.5	(54%)
Net earnings	4.4	9.0	(51%)
per share (basic and diluted) <sup>(2)</sup>	0.08	0.17	(53%)
Funds provided from operations <sup>(1)</sup>	11.9	17.0	(30%)
per share (basic and diluted) <sup>(2)</sup>	0.22	0.32	(31%)
Dividends	2.6	2.6	0%
per share <sup>(2)</sup>	0.05	0.05	0%
Capital expenditures	2.6	2.6	0%
	As At		
	March 31, 2018	December 31, 2017	% Change
Working Capital <sup>(1)</sup>	57.6	53.7	7%
Total assets	271.4	267.0	2%
Total non-current financial liabilities	3.5	3.6	(3%)
Net cash, end of period <sup>(1)</sup>	19.7	22.1	(11%)
Shareholders' Equity	233.0	230.8	1%
Shares outstanding <sup>(2)</sup>	53.1	53.3	(0%)

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

(2) The number of shares used in calculating the net earnings per share amounts is determined differently as explained note 14 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".

High Arctic conducts its business operations in three separate operating 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. The Corporation also provides additional drilling 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") 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

The stability provided by High Arctic's Canadian well servicing operations has helped to offset lower activity levels in the Corporation's PNG business operations as well as reduced activity in the Corporation's snubbing operations which continue to face headwinds in light of prolonged low natural gas pricing in the WCSB. The Corporation continues to seek opportunities to leverage its financial position to pursue additional growth and diversification opportunities to further strengthen High Arctic's business operations.

- High Arctic reported revenue of \$53.7 million and Adjusted EBITDA of \$13.7 million in the quarter.
- Utilization for High Arctic's 57 registered Concord Well Servicing rigs was 63% in the quarter versus industry utilization of 47% (source: Canadian Association of Oilwell Drilling Contractors "CAODC").
- The Corporation's PNG operations were impacted by a large earthquake in PNG on February 25, 2018, which resulted in some operating activities being suspended during the quarter. This event only caused minor damage to some support equipment and no personnel were impacted and operating activities have largely recommenced.
- High Arctic continues to maintain a strong balance sheet with \$19.7 million in cash, for a total working capital balance of \$57.6 million and no amounts outstanding on its debt.
- Consistent with prior quarters, High Arctic declared \$2.6 million (\$0.05 per share) in dividends during the quarter which represents 22% of funds provided from operations in the quarter. In addition, High Arctic repurchased and canceled 270,408 shares with a value of \$1.0 million under the Corporation's NCIB during the quarter resulting in a total of \$3.6 million being returned to shareholders in the quarter via dividends and share repurchases.

## Consolidated Results

\$ millions (except per share amounts)	Three months ended March 31			
	2018	2017	Change	%
Revenue	53.7	64.8	(11.1)	(17%)
EBITDA <sup>(1)</sup>	12.7	21.0	(8.3)	(40%)
Adjusted EBITDA <sup>(1)</sup>	13.7	21.0	(7.3)	(35%)
Adjusted EBITDA % of revenue	26%	32%	(6%)	(20%)
Net earnings	4.4	9.0	(4.6)	(51%)
per share (basic and diluted) <sup>(2)</sup>	0.08	0.17	(0.1)	(53%)

(1) Readers are cautioned that EBITDA and Adjusted EBITDA do not have standardized meanings prescribed by IFRS – see “Non IFRS Measures” on page 17 for calculations of these measures.

(2) The number of shares used in calculating the net earnings per share amounts is determined as explained in note 14 of the Financial Statements.

### First Quarter:

Activity for the Corporation’s well servicing operations increased quarter over quarter contributing to an 11% increase in well servicing revenue in the quarter relative to the first quarter of 2017. This positive contribution was offset by lower drilling activity in PNG as well as lower Canadian nitrogen and snubbing activity, resulting in a 17% decline in consolidated revenue to \$53.7 million in the quarter from \$64.8 million in the first quarter of 2017.

The reduction in consolidated revenue, combined with the increased contribution from the Production Services segment, which has a lower operating margin, resulted in Adjusted EBITDA declining to \$13.7 million in the quarter from \$21.0 million in the first quarter of 2017. The reduced Adjusted EBITDA during the quarter combined with increased share-based compensation expense and foreign exchange losses in the quarter resulted in a decline in net earnings to \$4.4 million (\$0.08 per share) in the quarter versus \$9.0 million (\$0.17 per share) in the first quarter of 2017.

## Operating Segments

### Drilling Services

(\$ millions)	Three Months Ended March 31			
	2018	2017	Change	%
Revenue	23.5	34.3	(10.8)	(31%)
Oilfield services expense <sup>(1)</sup>	14.5	18.6	(4.1)	(22%)
Oilfield services operating margin <sup>(1)</sup>	9.0	15.7	(6.7)	(43%)
Operating margin (%)	38%	46%	(8%)	(17%)

(1) See ‘Non-IFRS Measures’ on page 17

The Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) and operates two rigs (Rigs 103 and 104) on behalf of a major oil and gas exploration company in PNG. In the fourth quarter of 2017, High Arctic added a fast-moving land based rig, Rig 405, to its PNG drilling fleet to complete a short-term drilling project. Due to the duration of this project, the rig was leased from a non-PNG third-party contractor. This rig is expected to be returned to the third-party contractor upon completion of its drilling assignment.

First Quarter:

Drilling Services revenue declined 31% in the quarter to \$23.5 million from \$34.3 million in the first quarter of 2017. This decline was due to a combination of lower pricing and drilling activity in the quarter. In addition, the first quarter of 2017 benefitted from the higher rate contract contribution for Rig 115 which expired in June 2017. Activity was negatively impacted during the quarter by a large earthquake in PNG on February 25, 2018, which curtailed some of the Corporation's operations in PNG.

Rig 405 was active on its drilling program until early February at which time operations were suspended by the Corporation's customer due to local landowner issues. This suspension was further extended following the earthquake with the customer invoking Force Majeure as they assessed the impact to the drilling location. Drilling operations at the site remain suspended, with road access to the site recently re-established enabling the rig and associated equipment to be moved off the well to stable ground nearby. During this period of Force Majeure, the Corporation has received its lower contracted Force Majeure rates which has largely been offset by lower operating costs. Based on initial assessments, only minor damage was incurred to some of the support equipment and no personnel injuries were incurred as a result of the earthquake. During this suspension, High Arctic has provided various personnel and support equipment to assist its customer in local relief effort activities.

Mobilization activity for Rig 104 was suspended and deferred by the customer while they focused resources on the earthquake response. The rig continues to be warm stacked and its expected to recommence mobilization to its next well in Muruk in Q3. Rig 115 commenced mobilization and rig up at a drilling location in Kimu during the quarter with the well spudding in late April. Rig 103 was being stacked and maintenance activities conducted on it at a staging point in the Southern Highlands during the quarter. Rig 116 continued to generate standby revenue under its take-or-pay contract.

Operating margin as a percentage of revenue decreased quarter over quarter to 38% versus 46% in the first quarter of 2017. This decrease was due to an increased proportion of revenue generated from non-owned rigs (Rigs 103, 104 and 405) during the quarter which incur lease expense charges that are not incurred on High Arctic's owned rigs. Margins were also impacted by lower Force Majeure rates on Rig 405 as well as the effect of reduced operating rates generated on the contract extensions for Rigs 103 and 104 which came into effect in July 2017. The reduced activity in the quarter also resulted in lower revenue contribution towards fixed operating costs for the Drilling Services division which also negatively impacted operating margins in the quarter. The first quarter of 2017 also benefitted from a full quarter of higher rate contract revenue on Rig 115 which contributed higher margins than the margins currently generated by the rig under its current drilling assignment.

Partially offsetting the impact of the reduced margins generated from the above rigs was the contracted take-or-pay standby revenue generated on Rig 116 which incurs minimal operating costs while the rig is on standby. Take-or-pay standby revenue accounted for approximately 26% of the Drilling Services revenue in the quarter versus 18% in the comparative quarter in 2017. Excluding the impact of the standby revenue, operating margin as a percentage of revenue would have been 18% in the quarter versus 36% in the first quarter of 2017.

## Production Services

(\$ millions)	Three Months Ended March 31			
	2018	2017	Change	%
Revenue	23.3	22.5	0.8	4%
Oilfield services expense <sup>(1)</sup>	19.2	18.7	0.5	3%
Oilfield services operating margin <sup>(1)</sup>	4.1	3.8	0.3	8%
Operating margin (%)	18%	17%	1%	6%

### Operating Statistics:

#### Service rigs

Average Fleet <sup>(2)</sup>	57	54	3	6%
Utilization <sup>(3)</sup>	63%	62%	1%	2%
Operating hours	32,184	30,664	1,520	5%
Revenue per hour	634	600	34	6%

#### Snubbing rigs

Average Fleet <sup>(4)</sup>	8	9	(1)	(11%)
Utilization <sup>(3)</sup>	26%	37%	(11%)	(30%)
Operating hours	1,875	3,054	(1,179)	(39%)

(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 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 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 Production Services segment also provides heli-portable workover services in PNG through Rig 102; however, no workover services were provided in PNG during 2017 or 2018 and as such no revenue was generated or costs have been incurred associated with this rig during the periods presented.

### First Quarter:

Increased quarter over quarter activity and pricing for High Arctic's Concord Well Servicing rigs offset lower activity experienced for the Corporation's snubbing operations in the quarter resulting in a 4% increase in revenue for the Production Services segment to \$23.3 million in the quarter versus \$22.5 million in the first quarter of 2017. Operating hours for the Concord rigs increased 5% to 32,184 hours in the quarter from 30,664 hours in the first quarter of 2017, allowing the Concord rigs to generate \$20.4 million in revenue during the quarter versus \$18.4 million in the first quarter of 2017. Consistent with prior quarters, the Concord rigs achieved above industry utilization of 63% versus the 47% utilization generated by the industry's registered well servicing rigs in the quarter (source: CAODC). The increase in activity has allowed for pricing increases in certain areas, however, pricing remains competitive. This increase in pricing combined with an increased exposure to higher rate operating areas and additional contribution from seasonal boiler revenue allowed average revenue per hour for the Concord rigs to increase to \$634 per hour in the quarter from \$600 per hour in the comparative quarter in 2017.

The positive contribution from the Concord rigs was partially offset by lower activity experienced in the Production Service's snubbing operations which saw revenue decrease to \$2.9 million in the quarter versus the \$4.1 million generated in the first quarter of 2017. Operating hours for the snubbing rigs in the quarter were 1,875 versus 3,054 hours in the first quarter of 2017. Activity for the Corporation's snubbing operations has been hampered over recent quarters due to prolonged low natural gas prices which is curtailing snubbing activity on natural gas completions for the Corporation's customers.

While some pricing improvements have been achieved over the prior quarter, this has largely been offset by increased field operating costs associated with field personnel compensation increases implemented in late 2017 as well as increased repair and maintenance costs as additional rigs were reactivated to meet customer demand. Margins were also negatively impacted by lower fixed operating cost coverage in the segment's snubbing operation due to the lower snubbing revenue contribution. As a result of this increase in costs, margins for the production services segment remained relatively flat quarter over quarter at 18%.

As a result of the lower activity levels being experienced in the Corporation's snubbing and nitrogen operations, subsequent to quarter end, the Corporation commenced activities to consolidate its Blackfalds field operations support into High Arctic's Acheson operations facility. This measure will allow the Corporation to reduce overlapping operational support functions and is also anticipated to result in reduced field operating costs as operations will now be based out of locations more central to the Corporation's current field activity.

## Ancillary Services

(\$ millions)	Three Months Ended March 31			
	2018	2017	Change	%
Revenue	7.8	8.8	(1.0)	(11%)
Oilfield services expense <sup>(1)</sup>	2.9	2.8	0.1	4%
Oilfield services operating margin <sup>(1)</sup>	4.9	6.0	(1.1)	(18%)
Operating margin (%)	63%	68%	(5%)	(7%)

(1) Revenue includes inter-segment revenue charged to Production Services and Drilling Services from Ancillary Services division of \$0.9 million for the quarter (2017 - \$0.8 million).

(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 ClearCompliance software business operations.

### First Quarter:

Growth in the segment's Canadian rental operations partially offset lower equipment rental activity in PNG and lower nitrogen services during the quarter. The growth in the Canadian rental operations over recent quarters has been due to a combination of increased well servicing operations which utilize certain rental equipment as well as successful efforts to expand the segment's rental opportunities with new and existing customers. The lower PNG rental activity was aligned with lower drilling activity in the quarter as well as the expiry of take-or-pay equipment rental contracts associated with Rig 115 at the end of the second quarter in 2017. Nitrogen activity was lower due to reduced activity from core customers in the quarter as lower natural gas pricing in the WCSB curtailed natural gas fracturing activity which is an activity driver for the Corporation's nitrogen operations.

Operating margin as a percentage of revenue declined to 63% in the quarter versus 68% in the first quarter of 2017. This decline was due to the reduced contribution from higher margin service lines and lower rig mat rental volumes in PNG in the quarter relative to the first quarter of 2017.

## General and Administration

(\$ millions)	Three Months Ended March 31			
	2018	2017	Change	%
General and administration	4.3	4.5	(0.2)	(4%)
Percent of revenue	8%	7%	1%	14%

General and administrative costs decreased \$0.2 million from \$4.5 million in the first quarter of 2017 as a result of cost reductions implemented in the second half of 2017. Due to the decline in revenue during the quarter, general and administrative costs increased to 8% of revenue versus 7% in the first quarter of 2017.

## Depreciation

Depreciation expense remained consistent at \$6.4 million during the quarter as the Corporation has incurred limited capital expenditures subsequent to the first quarter of 2017 and \$3.4 million remains in capital under construction for items not yet placed into operational service for which depreciation has not yet commenced.

## Share-based Compensation

Share based compensation was \$0.6 million in the quarter versus \$0.1 million in the first quarter of 2017. The increase in share-based compensation expense in the quarter is due to an increase in awards granted throughout 2017 and in the quarter under the Corporation's equity incentive plans.

## 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 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, with an average exchange rate of \$1.265 during the first quarter of 2018 (2017 – \$1.323). The stronger U.S. dollar benefits the Corporation as the majority of the Corporation's PNG business is conducted in U.S. dollars.

As at March 31, 2018, the U.S. dollar exchange rate was 1.289 versus 1.255 as at December 31, 2017. This strengthening of the U.S. dollar has resulted in a translation gain of \$3.9 million recorded in other comprehensive income for the three months ended March 31, 2018.

The fluctuation in exchange rates quarter to date also resulted in a \$0.4 million foreign exchange loss being recorded on various foreign exchange transactions (2017 - \$0.1 million gain). The Corporation does not currently hedge its foreign exchange transactions or exposure.

## Interest and Finance Expense

During the quarter, the Corporation did not have any long term debt outstanding but incurred \$0.1 million in bank fees and other interest charges (\$0.4 million for the three months ended March 31, 2017).

## Income Taxes

(\$ millions)	Three Months Ended March 31			
	2018	2017	Change	%
<b>Net earnings before income taxes</b>	<b>6.2</b>	14.2	(8.0)	(56%)
Current income tax expense	1.6	3.4	(1.8)	(53%)
Deferred income tax expense	0.2	1.8	(1.6)	(89%)
<b>Total income tax expense</b>	<b>1.8</b>	5.2	(3.4)	(65%)
Effective tax rate	<b>29%</b>	37%	(8%)	(21%)

The Corporation's effective tax rate decreased to 29% for the first quarter of 2018 from 37% in 2017. The decline in effective tax rate in the quarter relative to the first quarter of 2017 is due to dividend withholding taxes on intercompany dividends paid in the first quarter of 2017, which did not occur in the first quarter of 2018 as there were no intercompany dividends paid in the quarter which were subject to dividend withholding taxes.

As at March 31, 2018, High Arctic had \$66.7 million in unrecognized tax pools, consisting of \$28.8 million in non-capital loss pools and \$37.9 million in capital loss pools, which may be utilized to offset future taxable earnings generated by the Corporation's Canadian business operations. These losses expire no earlier than 2025. With the increasing profitability of the Corporation's Canadian business operations, the Corporation will continue to evaluate the appropriateness of recognizing additional deferred tax assets in future reporting periods.

## Other Comprehensive Income

As discussed above under Foreign Exchange Transactions, the Corporation recorded a \$3.9 million foreign currency translation gain in other comprehensive income quarter to date due to the weakening of the Canadian dollar, as compared to the US dollar, at March 31, 2018 relative to December 31, 2017.

During the quarter, the Corporation also recognized a \$0.7 million unrealized loss on its strategic investments in other comprehensive income due to fluctuations in investment share prices.



## Liquidity and Capital Resources

(\$ millions)	Three Months Ended March 31		
	2018	2017	Change
Cash provided by (used in):			
Operating activities	4.8	(4.9)	9.7
Investing activities	(2.7)	(1.9)	(0.8)
Financing activities	(4.6)	(1.3)	(3.3)
Effect of exchange rate changes	0.1	(0.1)	0.2
Increase (decrease) in cash and cash equivalents	(2.4)	(8.2)	5.8
	As At		
	March 31, 2018	December 31, 2017	Change
Working capital <sup>(1)</sup>	57.6	53.7	3.9
Working capital ratio <sup>(1)</sup>	3.3 : 1	3.2 : 1	0.1 : 1
Net cash <sup>(1)</sup>	19.7	22.1	(2.4)
Undrawn availability under debt facilities	45.0	45.0	-

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

High Arctic continues to maintain a strong balance sheet with \$19.7 million in cash and no debt outstanding on its credit facility as at March 31, 2018.

Management believes High Arctic's current capital resources, plus anticipated cash generated from operating activities in 2018, will be sufficient to meet its planned 2018 capital expenditure program of \$13.3 million and anticipated dividends and share repurchases under the Corporation's Normal Course Issuer Bid ("NCIB") for 2018. Management will reassess the Corporation's capital resource needs as changes occur in its business operations and as future growth opportunities arise.

The Bank of PNG policy 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 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 amendments of its existing 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. 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

Consistent with the decrease in Adjusted EBITDA for the quarter, funds provided from operations decreased 30% to \$11.9 million from \$17.0 million in the first quarter of 2017. After working capital adjustments, net cash generated from operating activities during the quarter was \$4.8 million compared to negative \$4.9 million in 2017. The increase in net cash generated from operating activities relates to increased accounts receivable collections.

### Investing Activities

High Arctic incurred \$2.6 million in capital expenditures during the quarter (2017 - \$2.6 million) 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 quarter, the Corporation generated \$0.1 million in cash from the sale of redundant equipment.

### Financing Activities

During the first quarter of 2018, the Corporation declared monthly dividends of \$0.0165 per share, resulting in total dividends paid to shareholders of \$2.6 million in the quarter (2017 - \$2.6 million). In addition, the Corporation purchased and cancelled 270,408 shares for a total of \$1.0 million under its NCIB, resulting in a total of \$3.6 million being returned to shareholders via dividends and share buybacks during the quarter.

### Credit Facility

In the first quarter of 2017, High Arctic renewed its existing credit facility. As at March 31, 2018, 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 March 31, 2018, no amounts were drawn on the facility and total credit available to draw was \$45.0 million.

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

Covenant	Required	March 31, 2018
Funded debt to EBITDA <sup>(1)(4)</sup>	2.50 : 1 Maximum	0.01 : 1
Current ratio <sup>(2)</sup>	1.25 : 1 Minimum	3.29 : 1
Fixed charge coverage ratio <sup>(3)</sup>	1.25 : 1 Minimum	30.12 : 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 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.

(4) EBITDA for the purposes of calculating the covenants, "covenant EBITDA," is defined as net income plus interest expense, current taxes payable, depreciation, amortization, future income tax expense (recovery), stock based compensation less gains from foreign exchange and sale or purchase of assets.

There have been no changes to these financial covenants subsequent to March 31, 2018 and the Corporation remains in compliance with the financial covenants under its credit facility as at March 31, 2018.

## Contractual Obligations and Contingencies

High Arctic's contractual financial obligations as at March 31, 2018 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	2.1	2.7	1.9	8.5	15.2
<b>Total</b>	<b>26.3</b>	<b>2.7</b>	<b>1.9</b>	<b>8.5</b>	<b>39.4</b>

### Inventory

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 \$8.4 million by a customer and a third-party supplier for the Corporation's operations in PNG. The inventory is owned by these parties and has not been recorded on the books of High Arctic. At the end of the contracts, the Corporation must return an equivalent amount of inventory to these parties. The Corporation recorded a provision of \$0.7 million during 2016 within accrued liabilities to account for a potential shortfall in inventory, which may require cash settlement.

### 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 May 10, 2018, there were 52,322,725 issued and outstanding common shares, including 20,000 shares held in the Executive and Director Share Incentive Plan. In addition, 1,957,800 options were outstanding at an average exercise price of \$3.99 as well as 393,490 units under the Corporation's Performance Share Unit Plan and 153,682 units under the Deferred Share Unit plan.

On September 15, 2017, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,902,733 common shares, representing approximately 10 percent of the Corporation's public float, under a NCIB. The NCIB is valid for one year and expires on September 18, 2018. A total of 270,408 common shares have been purchased and cancelled under the NCIB as at March 31, 2018 at a cost of \$1.0 million. Subsequent to quarter end, an additional 505,498 shares have been repurchased under the NCIB for total proceeds of \$2.0 million. As at May 10, 2018 the Corporation has 2,126,827 million in shares remaining under its approved NCIB which can be repurchased prior to the expiry of the NCIB.

## 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)	2018	2017				2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Revenue</b>	<b>53.7</b>	<b>51.5</b>	<b>42.8</b>	<b>51.1</b>	<b>64.8</b>	<b>62.3</b>	<b>47.5</b>	<b>43.5</b>
<b>Adjusted EBITDA<sup>(1)</sup></b>	13.7	12.4	10.6	14.3	21.0	18.3	15.6	15.1
<b>Adjusted net earnings<sup>(2)</sup></b>	4.4	3.5	2.8	5.0	9.0	8.4	8.8	6.3
per share - basic	0.08	0.06	0.06	0.09	0.17	0.16	0.16	0.12
<b>Net earnings</b>	4.4	3.5	2.8	5.0	9.0	7.5	20.1	6.3
per share - basic	0.08	0.06	0.06	0.09	0.17	0.14	0.38	0.12
<b>Funds provided from operations<sup>(1)</sup></b>	11.9	9.3	9.8	9.1	17.0	15.9	11.6	13.4

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

(2) Adjusted net earnings excludes the impact of a \$12.7 million gain on acquisition and \$2.3 million in transaction costs related to the Tervita Acquisition completed in 2016. See "Non-IFRS Measures" on page 19 of the Corporation's December 31, 2017 Management Discussion and Analysis filed on SEDAR 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 drilling rigs, Rigs 115 and 116, and additional rental equipment to its fleet in 2015 under take-or-pay contract arrangements. These take-or-pay contract arrangements have provided a consistent revenue and earnings base for the Corporation's PNG operations and have helped to mitigate the impact of lower activity levels experienced in PNG subsequent to the first quarter of 2016. The take-or-pay contract for Rig 115 expired in June 2017 resulting in reduced revenue and EBITDA contribution subsequent to the second quarter of 2017. The take-or-pay contract for Rig 116 remains in effect and is scheduled to expire on November 2, 2018. The Corporation's results have also benefited from the acquisition of Tervita's Production Services Division (the "Tervita Acquisition") which closed on August 31, 2016. This acquisition has 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 decline in revenue subsequent to the first quarter of 2017 is due to the expiry of the take or pay contract for Rig 115 in June 2017 as well as the impact of seasonal conditions in the Corporation's Canadian operations 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.

Changes in the value of the U.S. dollar as compared to the Canadian dollar have also contributed to fluctuations in revenues, earnings and funds provided from operations. The U.S. Dollar has strengthened relative to the Canadian dollar, peaking in the second quarter of 2017 and subsequently leveling off in the 1.25 to 1.30 range since the second quarter of 2017.

### 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.

	2018	2017					2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
<b>Oil and natural gas prices</b>									
<b>Average for the period:</b>									
Brent Crude Oil (U.S. \$/bbl)	\$ 68	\$ 61	\$ 52	\$ 51	\$ 55	\$ 51	\$ 47	\$ 47	
Japan LNG (U.S. \$/mmbtu)	\$ 8.98	\$ 7.76	\$ 8.33	\$ 8.40	\$ 7.57	\$ 7.15	\$ 6.51	\$ 6.08	
<b>U.S./Canadian dollar exchange rate</b>	1.26	1.27	1.25	1.34	1.32	1.33	1.30	1.29	

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 over the last eight quarters 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.

	2018	2017					2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
<b>Oil and natural gas prices</b>									
<b>Average for the period:</b>									
West Texas Intermediate (U.S. \$/bbl)	\$ 63	\$ 55	\$ 48	\$ 48	\$ 52	\$ 49	\$ 45	\$ 46	
Canadian Light Sweet Oil (Cdn \$/bbl)	\$ 70	\$ 66	\$ 57	\$ 60	\$ 55	\$ 61	\$ 54	\$ 55	
AECO (C\$/mmbtu)	\$ 2.06	\$ 1.72	\$ 1.61	\$ 2.79	\$ 2.69	\$ 3.11	\$ 2.36	\$ 1.42	
<b>Other industry indicators</b>									
Total wells completed in Western Canada <sup>(1)(2)</sup>	1,696	1,852	1,764	1,265	1,554	824	754	1,055	
Average service rig utilization rates <sup>(1)</sup>	47%	40%	39%	29%	45%	39%	32%	23%	
Average drilling rig utilization rates <sup>(1)</sup>	41%	32%	30%	18%	39%	39%	32%	23%	

(1) Source: CAODC

(2) Source: Daily Oil Bulletin

Decreases in oil and natural gas prices have had a material impact on drilling and well completion activities in Canada since 2015 and continue to curtail industry activity levels relative to historical industry activity levels.

## Outlook

Activity for the Corporation's Concord well servicing operations continues to show strength despite entering into the traditional seasonal second quarter slow down. Year to date, operating hours for the Concord service rigs are approximately 6% above the hours generated in the same period in 2017. This increase in hours demonstrates the strength of High Arctic's customer base and exposure to certain operating areas which are less impacted by seasonal spring breakup conditions.

Similar to prior quarters, attraction and retention of sufficient field staff to meet demand continues to remain a challenge and has resulted in the Corporation implementing various compensation initiatives in an effort to attract and retain staff. As seen in the first quarter results, these compensation programs have added additional costs to the Corporation's Canadian operations, however, management believes this investment in enhanced field compensation plans will improve High Arctic's ability to respond to activity demands while retaining High Arctic's strong safety and operational performance.

Similar staffing challenges are facing the industry as a whole and management believes these staffing challenges combined with reduced industry investment in maintaining underutilized equipment continues to constrain capacity in the WCSB. This tightening of supply has provided the Corporation opportunities to improve pricing for its services in Canada, which will help to offset the increased costs being incurred for staffing and equipment maintenance. However, these pricing gains are largely limited to the Corporation's non-contracted services as the Corporation is limited to provisions within the various customer contracts to adjust pricing for its contracted pricing arrangements with its key customers.

While activity levels for the Corporation's well servicing operations remain positive, low natural gas prices continue to hamper activity for the Corporation's snubbing and N2 operations. Management is actively exploring opportunities to expand into markets with increased activity levels which may help to improve the financial contribution from these operations. In the meantime, in an effort to reduce costs and better position these operations closer to areas of field activity, in late April the Corporation made the difficult decision to close its Blackfalds facility and relocate these operations to its Acheson facility.

In PNG, the Rig 405 well site has been assessed and found to have suffered structural damage from the earthquake and aftershocks in February and March. As a result, the rig and associated equipment has been moved off the well to stable ground nearby to allow work to be conducted on the site which contains active production wells. The rig and equipment suffered superficial damage only and this is being addressed in parallel. The contract remains on Force Majeure and it is unclear at this time when it will return to operation. Rig 115 completed mobilization and is currently active on its drilling program in Kimu. Rig 103 has completed stacking at a staging point in the Southern Highlands and the Corporation is in negotiations with its customer to swap the remaining Rig 115 work program to Rig 103 which is positioned nearby to the next scheduled Rig 115 wellsite. Mobilization activity for Rig 104 was suspended and deferred by the customer while they focused resources on the earthquake response, it continues to be warm stacked and is expected to recommence mobilization to its next well in Muruk in Q3. Rig 116 remains under contract in Port Moresby

High Arctic continues discussions with its key customer in PNG related to a commercial arrangement regarding the ownership and operations management of the drilling rigs in PNG. High Arctic will continue to provide further updates as appropriate.

## 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/regional oil and gas producers. Notwithstanding its large customer base, the Corporation provides services to three large customers (2017 – four) which individually accounted for greater than 10% of its consolidated revenues during the three months ended March 31, 2018. Sales to these three customers were approximately \$20.6 million, \$6.7 million and \$5.8 million for the three months ended March 31, 2018 (2017 - \$14.8 million, \$9.3 million and \$4.4 million). As at March 31, 2018, these three customers represented 47%, 13% and 5%, respectively, of outstanding accounts receivable (December 31, 2017 – three customers represented a total of 60%). 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:

<b>Days outstanding:</b>	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Less than 31 days	19.3	18.0
31 to 60 days	21.8	13.7
61 to 90 days	5.0	5.7
Greater than 90 days	3.7	3.1
Allowance for doubtful accounts	(0.1)	(0.1)
<b>Total</b>	<b>49.7</b>	<b>40.4</b>

#### **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.

#### **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 three months ended March 31, 2018, a \$0.10 change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a \$0.4 million change in net earnings for the quarter as a result of changes in foreign exchange.



The Corporation's financial instruments have the following foreign exchange exposure at March 31, 2018:

(millions)	U.S. Dollar <sup>(1)</sup> (in USD)	PNG Kina <sup>(1)</sup> (in Kina)	Australian Dollar <sup>(1)</sup> (in AUD)
Cash and cash equivalents	12.6	0.7	0.2
Trade and other receivables	23.6	2.8	-
Trade and other payables	(7.3)	(4.3)	(0.4)
<b>Total</b>	<b>28.9</b>	<b>(0.8)</b>	<b>(0.2)</b>

(1) As at March 31, 2018, one U.S. dollar was equivalent to 1.2894 Canadian dollars.

(2) As at March 31, 2018, one PNG Kina was equivalent to 0.3995 Canadian dollars.

(3) As at March 31, 2018, one Australian dollar was equivalent to 0.9902 Canadian dollars.

As at March 31, 2018 U.S. \$10.5 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 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 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 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 or 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 the 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, 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, 2017.

The Corporation has adopted, as of January 1, 2018, all the requirements of IFRS 15, *Revenue from Contracts with Customers*. The Corporation has adopted the modified retrospective approach, recognizing the cumulative impact of adoption in retained earnings as of January 1, 2018. Comparative periods were not restated. Please see note 3 in the unaudited March 31, 2018 interim consolidated financial statements for further details on the adoption of this standard.



## 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. 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.

## 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 March 31, 2018 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 AIF for the year ended December 31, 2017, which are specifically incorporated by reference herein. The AIF is available on SEDAR at [www.sedar.com](http://www.sedar.com), a copy of which can be obtained on request, without charge, from the Corporation.

## Non-IFRS Measures

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

### EBITDA

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

### Adjusted EBITDA

Adjusted EBITDA is calculated based on EBITDA (as referred to above) prior to the effect of share-based compensation, gains or losses on 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 months ended March 31:

\$ millions	Three Months Ended March 31	
	2018	2017
<b>Net earnings for the period</b>	<b>4.4</b>	9.0
Add:		
Interest and finance expense	<b>0.1</b>	0.4
Income taxes	<b>1.8</b>	5.2
Depreciation	<b>6.4</b>	6.4
<b>EBITDA</b>	<b>12.7</b>	21.0
Adjustments to EBITDA:		
Share-based compensation	<b>0.6</b>	0.1
Loss (gain) on sale of assets	-	-
Foreign exchange (gain) loss	<b>0.4</b>	(0.1)
<b>Adjusted EBITDA</b>	<b>13.7</b>	21.0

#### 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 March 31	
	2018	2017
<b>Revenue</b>	<b>53.7</b>	64.8
Less:		
Oilfield services expense	<b>35.7</b>	39.3
<b>Oilfield Services Operating Margin</b>	<b>18.0</b>	25.5
<b>Oilfield Services Operating Margin (%)</b>	<b>34%</b>	39%

#### 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 (used in) operating activities to funds provided from operations for the three months ended March 31:

\$ millions	Three Months Ended March 31	
	2018	2017
<b>Net cash generated from (used in) operating activities</b>	<b>4.8</b>	<b>(4.9)</b>
Less:		
Net changes in items of non-cash working capital	7.1	21.9
<b>Funds provided from operations</b>	<b>11.9</b>	<b>17.0</b>

### 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	
	March 31, 2018	December 31, 2017
<b>Current assets</b>	<b>82.7</b>	<b>77.1</b>
Less:		
<b>Current liabilities</b>	<b>(25.1)</b>	<b>(23.4)</b>
<b>Working capital</b>	<b>57.6</b>	<b>53.7</b>

### Net cash

Net 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 cash as follows:

\$ millions	As At	
	March 31, 2018	December 31, 2017
<b>Cash and cash equivalents</b>	<b>19.7</b>	<b>22.1</b>
Less:		
Long-term debt	-	-
<b>Net cash</b>	<b>19.7</b>	<b>22.1</b>

## 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

May 10, 2018

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 with its key customer in PNG related to a commercial arrangement regarding the ownership and operations management of the drilling rigs in PNG; future acquisitions and growth opportunities; commodity prices and the impact that they have on industry activity; estimated capital expenditure programs for fiscal 2018 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 U.S. dollar bank account and conduct its business in U.S. dollars 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](http://www.sedar.com).

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