# Management's Discussion and Analysis
## For the Years Ended December 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 March 14, 2019 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2018 and 2017 (the "Financial Statements"). Additional information relating to the Corporation including the Corporation's Annual Information Form ("AIF") for the year ended December 31, 2018, is available under the Corporation's profile on SEDAR at www.sedar.com. All amounts are expressed in millions of Canadian dollars, unless otherwise noted, and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned that this MD&A contains certain forward-looking information. Please refer to the end of this MD&A for the Corporation's disclaimer on forward-looking information and statements. The definitions of certain non-IFRS financial measures are included on page 19 under the "Non-IFRS Measures" section.

## Select Comparative Financial Information

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

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|---|---|---|---|---|---|
| $ millions (except per share amounts) | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| **Revenue** | **47.8** | 51.5 | (7%) | **203.3** | 210.2 | (3%) |
| **EBITDA**[(1)] | **6.1** | 11.8 | (48%) | **48.7** | 58.3 | (16%) |
| **Adjusted EBITDA**[(1)] | **6.6** | 12.4 | (47%) | **51.6** | 58.3 | (11%) |
| **Adjusted EBITDA % of revenue** | **14%** | 24% | (42%) | **25%** | 28% | (11%) |
| **Operating earnings (loss)** | **(0.8)** | 5.3 | (115%) | **23.7** | 31.7 | (25%) |
| **Net earnings (loss)** | **(2.3)** | 3.5 | (166%) | **11.4** | 20.3 | (44%) |
| per share (basic)[(2)] | **(0.04)** | 0.06 | (167%) | **0.22** | 0.38 | (42%) |
| per share (diluted)[(2)] | **(0.04)** | 0.06 | (167%) | **0.22** | 0.38 | (42%) |
| **Adjusted Net earnings (loss)**[(1)] | **(2.3)** | 3.5 | (166%) | **12.2** | 20.3 | (40%) |
| per share (basic)[(2)] | **(0.04)** | 0.06 | (167%) | **0.24** | 0.38 | (37%) |
| per share (diluted)[(2)] | **(0.04)** | 0.06 | (167%) | **0.24** | 0.38 | (37%) |
| **Funds provided from operations**[(1)] | **2.0** | 9.3 | (78%) | **36.8** | 45.2 | (19%) |
| per share (basic)[(2)] | **0.05** | 0.18 | (72%) | **0.71** | 0.85 | (16%) |
| per share (diluted)[(2)] | **0.05** | 0.17 | (71%) | **0.71** | 0.84 | (15%) |
| **Dividends** | **2.5** | 2.6 | (4%) | **10.3** | 10.5 | (2%) |
| per share[(2)] | **0.05** | 0.05 | 0% | **0.20** | 0.20 | 0% |
| **Capital expenditures** | **3.7** | 1.3 | 185% | **9.8** | 6.8 | 44% |

| | As at | | |
|---|---|---|---|
| | December 31, 2018 | December 31, 2017 | % Change |
| **Working capital**[(1)] | **56.8** | 53.7 | 6% |
| **Total assets** | **272.4** | 267.0 | 2% |
| **Total non-current financial liabilities** | **14.6** | 12.8 | 14% |
| **Net cash, end of period**[(1)] | **31.5** | 22.1 | 43% |
| **Shareholders' equity** | **234.2** | 230.8 | 1% |
| **Shares outstanding**[(2)] | **51.0** | 53.3 | (4%) |

(1) Readers are cautioned that EBITDA, Adjusted EBITDA, Adjusted net earnings, Funds provided from operations, Net cash 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 shares used in calculating the net earnings (loss) per share and adjusted net earnings (loss) per share amounts is determined differently as explained in note 17 in the Financial Statements.

## Corporate Profile

Headquartered in Calgary, Alberta, Canada, High Arctic provides oilfield services to exploration and production companies operating in Canada, the United States 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") and the United States 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 acquisition of Powerstroke and Saddle Well Services 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 and compliance consulting services.

## Highlights

High Arctic's Canadian well servicing operations and the Corporation's PNG business operations offset reduced activity in the Corporation's Canadian snubbing operations which continue to face headwinds in light of prolonged low natural gas pricing in the WCSB. Through the two business acquisitions completed in the third quarter of 2018, the Corporation has expanded its snubbing and service rig fleet and its geographic footprint entering the US market through the Powerstroke acquisition. 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. As previously announced the Corporation agreed terms with Oil Search Limited for a three-year contract renewal for its primary contracts of personnel and rental equipment to support drilling operations effective August 1, 2018 and worked closely with clients supporting earthquake recovery efforts during the course of the year.

**Fourth Quarter 2018:**

- High Arctic reported revenue of $47.8 million, net loss of $(2.3) million and Adjusted EBITDA of $6.6 million in the quarter.
- Utilization for High Arctic's 58 registered Concord Well Servicing rigs was 51% in the quarter versus industry utilization of 37% (source: Canadian Association of Oilwell Drilling Contractors "CAODC").
- Consistent with prior quarters, High Arctic declared $2.5 million ($0.05 per share) in dividends during the quarter which represents 125% of funds provided from operations in the quarter. In addition, High Arctic repurchased and cancelled 246,088 shares with a value of $0.8 million under the Corporation's NCIB during the quarter resulting in a total of $3.3 million being returned to shareholders in the quarter via dividends and share repurchases.
- In the quarter, High Arctic incurred $4 million in dividend withholding taxes which was related to earnings in prior quarters.

- Start up costs amounting to $2 million were incurred in the quarter related to expansion into the US as part of the Powerstroke acquisition.

**Year to Date 2018:**

- Year to date the Corporation reported revenue of $203.3 million, net earnings of $11.4 million and Adjusted EBITDA of $51.6 million.
- High Arctic continues to maintain a strong balance sheet with $31.5 million in cash and a total working capital balance of $56.8 million.
- A total of $19.9 million has been returned to shareholders year to date through dividends and share buybacks. The Corporation maintained its monthly dividend of $0.0165 per share resulting in year to date dividends declared of $10.3 million. The Corporation purchased and cancelled 2,473,862 shares for a total of $9.6 million under the Corporation's NCIB. Subsequent to December 31, 2018 year end, the Corporation has purchased and cancelled another 464,811 shares for a total of $1.8 million under this program.

## Business Acquisitions

**Power Energy Holdings Ltd.**

On August 16, 2018, High Arctic acquired the shares of Power Energy Holdings Ltd ("PEHL") which wholly owns Powerstroke Well Control Ltd and Powerstroke Well Control Inc (collectively "Powerstroke") increasing its snubbing and well servicing fleet and expanding its geographic footprint. Powerstroke is a well service company established in 2004 operating eight snubbing units and a heavy capacity new build service rig and drilling package. Powerstroke was headquartered in Grande Prairie, Alberta and has offices in Greely, Colorado and Williston, North Dakota, which establishes an entry into the United States for High Arctic. After the acquisition, High Arctic owns 17 snubbing units and plans on deploying underutilized Canadian assets to the United States, initially focused on snubbing and completion work in the Niobrara and the Bakken.

In accordance with IFRS 3 (Business Combinations), the acquired assets, and the liabilities assumed are recorded at the fair value on the acquisition date of $12.1 million in oilfield equipment, offset by working capital deficit of $1.5 million and $2.6 million of deferred tax liabilities for total consideration of $8.0 million (see note 9 in the Financial Statements).

**Saddle Well Services Inc.**

The Corporation acquired the assets of Saddle Well Services Inc. of Alberta consisting of a mobile single well service rig and associated equipment on August 16, 2018, thereby establishing an entry into the southeast Alberta well servicing market. The acquisition has been accounted for as a business combination using the acquisition method of accounting whereby the assets acquired, and the liabilities assumed are recorded at estimated fair value on the acquisition date. The consideration of $1.2 million has all been allocated to equipment (see note 9 in the Financial Statements).

## Consolidated Results

| | Three Months Ended December 31 | | | | Year Ended December 31 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ millions) | 2018 | 2017 | Change | % | 2018 | 2017 | Change | % |
| **Revenue** | **47.8** | 51.5 | (3.7) | (7%) | **203.3** | 210.2 | (6.9) | (3%) |
| **EBITDA**(1) | **6.1** | 11.8 | (5.7) | (48%) | **48.7** | 58.3 | (9.6) | (16%) |
| **Adjusted EBITDA**(1) | **6.6** | 12.4 | (5.8) | (47%) | **51.6** | 58.3 | (6.7) | (11%) |
| **Adjusted EBITDA % of Revenue** | **14%** | 24% | (10%) | (42%) | **25%** | 28% | (3%) | (11%) |
| **Net earnings (loss)** | **(2.3)** | 3.5 | (5.8) | (166%) | **11.4** | 20.3 | (8.9) | (44%) |
| per share (basic)(2) | **(0.04)** | 0.06 | (0.10) | (167%) | **0.22** | 0.38 | (0.16) | (42%) |
| per share (diluted)(2) | **(0.04)** | 0.06 | (0.10) | (167%) | **0.22** | 0.38 | (0.16) | (42%) |
| **Adjusted net earnings (loss)**(1) | **(2.3)** | 3.5 | (5.8) | (166%) | **12.2** | 20.3 | (8.1) | (40%) |
| per share (basic)(2) | **(0.04)** | 0.06 | (0.10) | (167%) | **0.24** | 0.38 | (0.14) | (37%) |
| per share (diluted)(2) | **(0.04)** | 0.06 | (0.10) | (167%) | **0.24** | 0.38 | (0.14) | (37%) |

(1) Readers are cautioned that EBITDA, Adjusted EBITDA and Adjusted net earnings (loss) do not have standardized meanings prescribed by IFRS – see "Non IFRS Measures" on page 19 for calculations of these measures.
(2) The number of shares used in calculating the net earnings (loss) per share and adjusted net earnings (loss) per share amounts is determined as explained in note 17 of the Financial Statements.

*Fourth Quarter:*

- Activity for the Corporation's drilling services decreased by $4 million in the fourth quarter of 2018 compared to the fourth quarter of 2017. This was partially offset by the new snubbing revenue provided by the Powerstroke acquisition. Consolidated revenue decreased 7% to $47.8 million in the quarter from $51.5 million in the fourth quarter of 2017.

- The decrease in consolidated revenue combined with the decreased contribution from the Drilling Services segment, which has a high operating margin, resulted in Adjusted EBITDA decreasing to $6.6 million in the quarter from $12.4 million in the fourth quarter of 2017. Flat contribution from the international business with an increase in share-based compensation expense as well as reduced foreign exchange gain resulted in a decrease in net earnings to $(2.3) million, (($0.04) per share (basic)) in the quarter versus $3.5 million, ($0.06 per share (basic)) in the fourth quarter of 2017.

*Year to Date 2018:*

- Increased activity from High Arctic's well servicing was insufficient to offset the decrease in drilling activity in PNG and lower Canadian nitrogen and snubbing activity, resulting in a 3% decrease in revenue to $203.3 million in 2018 versus $210.2 million in 2017.
- Adjusted EBITDA decreased $6.7 million in 2018 compared to 2017. The decline is due to a reduction in revenue combined with a greater proportion of revenue contribution from lower margin Production Services compared to 2017.
- The Corporation generated $11.4 million ($0.22 per share (basic)) in net earnings in 2018 versus $20.3 million ($0.38 per share (basic)) in 2017.
- A total of $10.3 million was returned to shareholders in 2018 through dividends which represents 28% of funds provided from operations in 2018. The Corporation purchased and cancelled 2,473,862 shares for a total of $9.6 million under the Corporation's NCIB. Subsequent to December 31, 2018 year end, the Corporation has purchased and cancelled another 464,811 shares for a total of $1.8 million under this program.

## Operating Segments

### Drilling Services

| | Three Months Ended December 31 | | | | Year Ended December 31 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ millions) | 2018 | 2017 | Change | % | 2018 | 2017 | Change | % |
| Revenue | **20.8** | 24.8 | (4.0) | (16%) | **93.0** | 105.1 | (12.1) | (12%) |
| Oilfield services expense [(1)] | **15.1** | 16.7 | (1.6) | (10%) | **56.1** | 61.9 | (5.8) | (9%) |
| **Oilfield services operating margin [(1)]** | **5.7** | **8.1** | **(2.4)** | **(30%)** | **36.9** | **43.2** | **(6.3)** | **(15%)** |
| Operating margin (%) | **27%** | 33% | (6%) | (18%) | **40%** | 41% | (1%) | (2%) |

[(1)] See 'Non-IFRS Measures' on page 19

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. Following damage to the well site from the earthquake in February 2018, the customer decided to terminate operations and Rig 405 was returned to Australia during the third quarter of 2018.

*Fourth Quarter:*

Drilling Services revenue decreased 16% in the quarter to $20.8 million from $24.8 million in the fourth quarter of 2018. This decrease was due to lower drilling activity in the quarter.

Rig 103 continued operations at IST-3 until December 12 and then mobilized to IDT-21 for its next well. Rig 104 spud its well at Muruk 2 in early November and continued drilling through year end. Rig 115 and Rig 116 were cold stacked during the quarter with Rig 116 completing its take-or-pay contract in early November.

*Year to Date 2018:*

Consistent with the fourth quarter results, lower drilling activity combined with reduced contribution from take-or-pay contracted revenue from both Rig 115 and Rig 116 has contributed to a 12% decline in Drilling Services revenue to $93.0 million in 2018 versus $105.1 million generated in 2017. The lower drilling activity in 2018 is a result of the major earthquake in the first quarter and resultant delays in drilling programs compared to the same period in 2017 when Rig 115 was under take-or-pay until June, Rig 116 was on standby for the full period and Rig 104 was actively drilling.

Operating margin as a percentage of revenue decreased slightly to 40% in 2018 versus 41% in 2017.

## Production Services

| | Three Months Ended December 31 | | | | Year Ended December 31 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ millions) | **2018** | **2017** | **Change** | **%** | **2018** | **2017** | **Change** | **%** |
| Revenue | **21.4** | 20.9 | 0.5 | 2% | **84.9** | 81.0 | 3.9 | 5% |
| Oilfield services expense (1) | **21.3** | 15.9 | 5.4 | 34% | **73.3** | 64.8 | 8.5 | 13% |
| Oilfield services operating margin (1) | **0.1** | **5.0** | **(4.9)** | **(98%)** | **11.6** | **16.2** | **(4.6)** | **(28%)** |
| Operating margin (%) | **0%** | 24% | (24%) | (100%) | **14%** | 20% | (6%) | (30%) |
| Operating Statistics: | | | | | | | | |
| Service rigs | | | | | | | | |
| Average Fleet (2) | 58 | 56 | 2 | 4% | 58 | 55 | 3 | 5% |
| Utilization (3) | 51% | 55% | (4%) | (7%) | 56% | 57% | -1% | (2%) |
| Operating hours | 27,161 | 28,509 | (1,348) | (5%) | 117,395 | 113,680 | 3,715 | 3% |
| Revenue per hour | 616 | 611 | 5 | 1% | 616 | 596 | 20 | 3% |
| Snubbing rigs | | | | | | | | |
| Average Fleet (4) | 17 | 9 | 8 | 89% | 10 | 9 | 1 | 11% |
| Utilization (3) | 38% | 28% | 10% | 36% | 26% | 29% | (3%) | (10%) |
| Operating hours | 4,792 | 2,344 | 2,448 | 104% | 9,274 | 9,556 | (282) | (3%) |

(1) See 'Non-IFRS Measures' on page 19
(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 and United States 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. The net book value of Rig 102 is not material and 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.

*Fourth Quarter:*

Decreased quarter over quarter activity for High Arctic's Concord Well Servicing rigs was offset by higher activity from the Corporation's snubbing operations in the quarter resulting in a 2% increase in revenue for the Production Services segment to $21.4 million in the quarter versus $20.9 million in the fourth quarter of 2017. Operating hours for the Concord rigs decreased 5% to 27,161 hours in the quarter from 28,509 hours in the fourth quarter of 2017. Consistent with prior quarters, the Concord rigs achieved above industry utilization of 51% versus the 37% utilization generated by the industry's registered well servicing rigs in the quarter (source: CAODC). Pricing remains competitive but with an increased exposure to higher rate operating areas this allowed the average revenue per hour for the Concord rigs to increase to $616 per hour in the quarter from $611 per hour in the comparative quarter in 2017.

The positive contribution from the Powerstroke Acquisition resulted in an increase in the Production Services snubbing operations which saw revenue increase to $5.9 million in the quarter versus the $3.4 million generated in the fourth quarter of 2017. Operating hours for the snubbing rigs in the quarter were 4,792 versus 2,344 hours in the fourth quarter of 2017. Activity for the Corporation's snubbing operations continues to be 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.

Operating margin decreased 24% to 0% compared to the same quarter in 2017. The decrease in margin is primarily due to start up costs amounting to $2 million incurred in the quarter related to expansion into the US as part of the Powerstroke acquisition and other associated operating costs.

*Year to Date 2018:*

The Production Services segment revenue increased to $84.9 million in 2018 from $81.0 million in 2017. Year to date the Concord rigs have generated 117,395 operating hours for a 56% utilization of the Corporation's 58 average CAODC registered service rigs versus 57% utilization achieved in 2017 for the industry's registered service rig fleet (source: CAODC). In 2018 the Concord rigs have generated an average revenue rate of $616 per hour compared to an average revenue rate of $596 per hour in 2017.

Activity for the Corporation's snubbing rigs has declined 3% in 2018 versus 2017. This decline in activity was due to the Corporation's core snubbing customers directing their efforts towards completing fracturing programs during the period.

Operating margin decreased to $11.6 million in 2018 from $16.2 million in 2017. Operating margins as a percentage of revenue decreased to 14% in 2018 from 20% in 2017. The primary factor contributing to this decrease is lower field operating margins in the snubbing segment.

During the fourth quarter, the Corporation sold its Blackfalds facility after re-locating those operations to its Acheson facility. The assets were sold on October 19, 2018 for net proceeds of $2.5 million.

## Ancillary Services

| | Three Months Ended December 31 | | | | Year Ended December 31 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ millions) | **2018** | **2017** | **Change** | **%** | **2018** | **2017** | **Change** | **%** |
| Revenue | **6.4** | 6.6 | (0.2) | (3%) | **29.1** | 27.4 | 1.7 | 6% |
| Oilfield services expense (1) | **2.0** | 3.3 | (1.3) | (39%) | **9.8** | 11.4 | (1.6) | (14%) |
| **Oilfield services operating margin (1)** | **4.4** | **3.3** | **1.1** | **33%** | **19.3** | **16.0** | **3.3** | **21%** |
| Operating margin (%) | **69%** | 50% | 19% | 38% | **66%** | 58% | 8% | 14% |

(1) Revenue includes inter-segment revenue charged to Production Services and Drilling Services from Ancillary Services division of $1.1 million for the quarter and $2.9 million year to date. In 2017 inter-segment revenue was $0.9 million for the quarter and $2.5 million year to date.
(2) 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 and ClearCompliance software business operations.

*Fourth Quarter:*

Growth in the segment's PNG rental operations was offset by decreases in Canadian rental operations, nitrogen services and engineering activity during the quarter. The increase in PNG rental activity was due to an increase in equipment being utilized in support of drilling activity, particularly for the remote exploration and appraisal work.

Operating margin as a percentage of revenue increased to 69% in the quarter versus 50% in the fourth quarter of 2017. This increase was due to the increased contribution from the PNG rental division partially offset by a decline in the operating margin from the nitrogen services division compared to the fourth quarter of 2017.

*Year to Date 2018:*

Increased rentals associated with both higher activity for the Corporation's Concord Well Servicing and higher equipment rental activity in PNG, offset lower nitrogen services and engineering in 2018. The higher equipment rental activity was due to increased drilling activity experienced in 2018 versus 2017 as well as increased rentals in PNG associated with recovery work after the February earthquake.

Operating margin as a percentage of revenue increased to 66% in 2018 from 58% in 2017. Higher margin rental divisions in PNG and Canada made up a greater proportion of revenue in 2018, which helped offset the decline in operating margin from the nitrogen services division.

## General and Administration

| | Three Months Ended December 31 | | | | Year Ended December 31 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ millions) | **2018** | **2017** | **Change** | **%** | **2018** | **2017** | **Change** | **%** |
| **General and administration** | **4.4** | 4.0 | 0.4 | 10% | **17.0** | 17.1 | (0.1) | (1%) |
| Percent of revenue | **9%** | 8% | 1% | 13% | **8%** | 8% | 0% | 0% |

Relative to the fourth quarter in 2017, general and administrative costs have increased in the fourth quarter and were flat on a year to year basis. General and administrative costs increased $0.4 million to $4.4 million in the fourth quarter mainly as a result of an increase in accrued bonuses and Workers' Compensation Board expenses of $129K and $57K respectively. For the year, general and administrative costs decreased $0.1 million to $17.0 million in 2018. General and administrative costs as a percentage of revenue increased by 1% to 9% this quarter as compared to the fourth quarter of 2017 and remained consistent at 8% for the year 2018 versus 2017.

## Depreciation

Depreciation expense decreased slightly to $6.4 million in the quarter from $6.6 million in the fourth quarter of 2017. The Corporation incurred a full quarter of depreciation associated with the $13.3 million in operating assets added through completion of the Powerstroke and Saddle Well Services acquisitions that added $12.1 million and $1.2 million, respectively, of operating assets. For the year, depreciation was flat.

## Share-based Compensation

The increase in share-based compensation to $1.4 million in 2018 from $0.7 million in 2017 is a result of a higher number of awards granted.

## 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 currency 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, as it increased during the fourth quarter compared to the first half of 2018, with an average exchange rate of $1.3214 during the fourth quarter of 2018 (2017 – $1.2715). 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 December 31, 2018, the U.S. dollar exchange rate was 1.3642 versus 1.2545 as at December 31, 2017. This strengthening of the U.S. dollar has resulted in a translation gain of $12.0 million recorded in other comprehensive income for the year ended December 31, 2018 ($7.1 million gain for the three months ended December 31, 2018).

The fluctuation in exchange rates for the year also resulted in a $0.3 million foreign exchange loss being recorded on various foreign exchange transactions (2017 - $0.7 million gain). The Corporation does not currently hedge its foreign exchange transactions or exposure.

## Interest and Finance Expense

For the three months ended December 31, 2018 the Corporation incurred no interest costs. On a year to date basis, the Corporation had an average debt balance outstanding of $2.4 million, resulting in $0.6 million being incurred in interest costs.

## Income Taxes

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|---|---|---|---|---|---|
| ($ millions) | 2018 | 2017 | Change | 2018 | 2017 | Change |
| **Net earnings (loss) before income taxes** | **(0.5)** | 5.0 | (5.5) | **22.4** | 31.4 | (9.0) |
| Current income tax expense | **4.4** | 2.9 | 1.5 | **12.9** | 11.9 | 1.0 |
| Deferred income tax expense (recovery) | **(2.6)** | (1.3) | (1.3) | **(1.9)** | (0.8) | (1.1) |
| **Total income tax expense** | **1.8** | 1.6 | 0.2 | **11.0** | 11.1 | (0.1) |
| Effective tax rate | **-360%** | 32% | | **49%** | 35% | |

The Corporation's effective tax rate increased to 49% in 2018 from 35% in 2017. The increase in effective tax rate is largely due to an increase in year to date tax expense associated with tax withholdings on dividend payments from PNG offset by higher deferred tax recovery in 2018.

## Other Comprehensive Income

As discussed above under Foreign Exchange Transactions, the Corporation recorded a $12.0 million foreign currency translation gain in other comprehensive income year to date due to the weakening of the Canadian dollar, as compared to the US dollar, at December 31, 2018 relative to December 31, 2017.

During the year ended December 31, 2018, the Corporation recognized a $1.4 million unrealized loss on its strategic investments, $0.7 million of this unrealized loss occurred during the three months ended December 31, 2018 due to fluctuations in investment share prices. The Corporation also recognized a realized loss on its strategic investments in December 2018 through the sale of a portion of the owned shares.

## Liquidity and Capital Resources

| | Three Months Ended December 31 | | | Year Ended December 31 | | |
|---|---|---|---|---|---|---|
| ($ millions) | 2018 | 2017 | Change | 2018 | 2017 | Change |
| Cash provided by (used in): | | | | | | |
| Operating activities | **16.5** | 5.8 | 10.7 | **42.1** | 34.3 | 7.8 |
| Investing activities | **(0.8)** | 1.0 | (1.8) | **(13.6)** | (3.2) | (10.4) |
| Financing activities | **(8.0)** | (11.6) | 3.6 | **(20.7)** | (34.9) | 14.2 |
| Effect of exchange rate changes | **1.5** | 0.3 | 1.2 | **1.6** | (1.4) | 3.0 |
| Increase (decrease) in cash and cash equivalents | **9.2** | (4.5) | 13.7 | **9.4** | (5.2) | 14.6 |

| | As At | | |
|---|---|---|---|
| | December 31, 2018 | December 31, 2017 | Change |
| Working capital[(1)] | 56.8 | 53.7 | 3.1 |
| Working capital ratio[(1)] | 3.4 : 1 | 3.2 : 1 | 0.2:1 |
| Net cash[(1)] | 31.5 | 22.1 | 9.4 |
| Undrawn availability under debt facilities | 45.0 | 45.0 | 0.0 |

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

As at December 31, 2018, the Corporation had $nil outstanding on its debt facilities and $31.5 million in cash.

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 with its key customers 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 in future, 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

The increase in foreign exchange losses and deferred tax expense offset by the increase in net working capital changes has resulted in funds provided from operations to increase 23% to $42.1 million from $34.3 million year on year 2018 to 2017.

### Investing Activities

Year to date the Corporation has invested an additional $13.6 million (2017 - $3.2 million) in capital expenditures primarily related to maintenance capital and upgrades to the Corporation's well servicing rigs and the purchase of Saddle Well Services and the Powerstroke group of companies.

### Financing Activities

During the year, the Corporation distributed $10.3 million in dividends to its shareholders. In addition, the Corporation purchased and cancelled 2,473,862 shares for a total of $9.6 million under its NCIB, resulting in a total of $19.9 million being returned to shareholders via dividends and share buybacks year to date.

### Credit Facility

As at December 31, 2018, High Arctic's credit facility consisted of a $45.0 million revolving loan facility which matures on August 31, 2020. 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 December 31, 2018, there was no amount 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 | December 31, 2018 |
|---|---|---|
| Funded debt to EBITDA(1)(4) | 2.50 : 1 Maximum | 0.03 : 1 |
| Current ratio(2) | 1.25 : 1 Minimum | 3.41 : 1 |
| Fixed charge coverage ratio(3) | 1.25 : 1 Minimum | 15.06 : 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 tax expense, depreciation, amortization, future income tax expense (recovery), stock-based compensation expense less gains from foreign exchange and sale or purchase of assets.

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

## Contractual Obligations and Contingencies

High Arctic's contractual financial obligations as at December 31, 2018 are summarized as follows:

| ($ millions) | 1 Year | 2-3 Years | 4-5 Years | Beyond 5 Years | Total |
|---|---|---|---|---|---|
| Accounts payable | 21.6 | - | - | - | 21.6 |
| Contingent Liability | 1.0 | - | - | - | 1.0 |
| Dividends payable | 0.8 | - | - | - | 0.8 |
| Operating and financial lease commitments | 1.9 | 3.0 | 1.8 | 7.8 | 14.5 |
| **Total** | **25.3** | **3.0** | **1.8** | **7.8** | **37.9** |

## 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 $7.9 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.

## 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 December 31, 2018, there were 51,009,011 issued and outstanding common shares. In addition, 1,343,000 options were outstanding at an average exercise price of $4.09 as well as 394,548 units under the Corporation's Performance Share Unit Plan and 159,054 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 was valid for one year and expired on September 18, 2018. A total of 2,227,774 common shares have been purchased and cancelled under the NCIB as at September 30, 2018 at a cost of $8.8 million.

On November 15, 2018 the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,700,386 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 November 18, 2019. A total 246,088 common shares have been purchased and cancelled under this NICB as at December 31, 2018 at a cost of $0.8 million. Subsequent to December 31, 2018 year end, the Corporation has purchased and cancelled another 464,811 shares for a total of $1.8 million under this program.

## 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) | Q4[3] | Q3[3] | Q2[3] | Q1 | Q4 | Q3 | Q2 | Q1 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **47.8** | **54.7** | **47.1** | **53.7** | **51.5** | **42.8** | **51.1** | **64.8** |
| **Adjusted EBITDA[1]** | 6.6 | 17.4 | 13.9 | 13.7 | 12.4 | 10.6 | 14.3 | 21.0 |
| **Net earnings (loss)** | (2.3) | 7.5 | 1.8 | 4.4 | 3.5 | 2.8 | 5.0 | 9.0 |
| per share - basic | (0.04) | 0.14 | 0.04 | 0.08 | 0.06 | 0.06 | 0.09 | 0.17 |
| **Adjusted net earnings (loss)[1][2]** | (2.3) | 7.7 | 2.4 | 4.4 | 3.5 | 2.8 | 5.0 | 9.0 |
| per share - basic | (0.4) | 0.15 | 0.05 | 0.08 | 0.06 | 0.06 | 0.09 | 0.17 |
| **Funds provided from operations[1]** | 2.0 | 14.3 | 8.6 | 11.9 | 9.3 | 9.8 | 9.1 | 17.0 |

(1) See 'Non-IFRS Measures' on page 19
(2) Adjusted net earnings (loss) in 2018 excludes the impact of $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.

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 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 expired on November 2, 2018 and future revenue and EBITDA contribution are anticipated to decrease as a result of the contract expiration. The corporation continues to promote both rigs for service in PNG and abroad, with Rig 115 being contracted for two wells in the 1H 2018 in PNG. The Corporation's results have also benefited from the acquisition of Tervita's Production Services Division (the "Tervita Acquisition") which closed in 2016.

During the third quarter of 2018, High Arctic completed the Powerstroke Acquisition and the Saddle Well Services Acquisition; however, only four and a half months of contribution from these acquisitions is included in the Corporation's results as both transactions closed on August 16, 2018.

Contributing to the decline in revenue subsequent to the first quarter of 2017 is 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.

### 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 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| **Oil and natural gas prices (Average for the period)** | | | | | | | | |
| Brent Crude Oil *(U.S. $/bbl)* (1) | $68 | $76 | $75 | $68 | $61 | $52 | $51 | $55 |
| Japan LNG *(U.S. $/mmbtu)* (2) | $11.69 | $10.73 | $10.26 | $8.98 | $7.76 | $8.33 | $8.40 | $7.57 |
| **U.S./Canadian dollar exchange rate** | 1.32 | 1.31 | 1.29 | 1.26 | 1.27 | 1.25 | 1.34 | 1.32 |

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

The Corporation's PNG activity has historically been 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 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.

| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
|---|---|---|---|---|---|---|---|---|
| **Oil and natural gas prices Average for the period:** | | | | | | | | |
| West Texas Intermediate (U.S. $/bbl)(1) | $59 | $69 | $68 | $63 | $55 | $48 | $48 | $52 |
| West Canada Select (Cdn. $/bbl(1) | $37 | $62 | $63 | $49 | $54 | $47 | $50 | $49 |
| Canadian Light Sweet Oil (Cdn $/bbl)(1) | $48 | $76 | $78 | $70 | $66 | $57 | $60 | $65 |
| AECO (C$/mmbtu)(1) | $1.62 | $1.28 | $1.20 | $2.06 | $1.72 | $1.61 | $2.79 | $2.69 |
| **Other industry indicators** | | | | | | | | |
| Total wells drilled in Western Canada(2) | 1,380 | 1,528 | 1,268 | 1,696 | 1,852 | 1,764 | 1,265 | 1,554 |
| Average service rig utilization rates(2) | 37% | 41% | 30% | 47% | 40% | 39% | 29% | 45% |
| Average drilling rig utilization rates(2) | 28% | 30% | 17% | 41% | 32% | 30% | 18% | 39% |

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

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

Industry activity in the fourth quarter was significantly muted due to low domestic oil prices caused from the surplus of oil production in Western Canada relative to the takeaway capacity caused by pipeline constraints requiring the intervention by the Alberta Government to introduce apportionment of oil production in the province. The uncertainties this has created within the Canadian industry are ongoing and will continue until new pipeline capacity is added. The wide differential pricing for Canadian crude oil caused many operators to voluntarily shut-in production followed by regulated Apportionment introduced by the Alberta Government has resulted in a decrease of well servicing activity. Canadian oil and gas companies are being very cautious with 2019 capital expenditure programs.

High Arctic recognizes the unique challenges faced by the industry and our clients and will continue to focus on providing the highest quality of service delivered with industry leading safety standards at fair and reasonable prices.

Activity for the Corporation’s Concord well servicing operations continues to show strength with year to date operating hours for the Concord service rigs 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 where High Arctic service rigs are particularly suited to the working environment.

Similar to prior quarters, attraction and retention of sufficient field staff to meet demand continues to remain an industry challenge and has resulted in the Corporation implementing various compensation initiatives in an effort to attract and retain staff. The compensation programs introduced throughout 2018 have resulted in markedly reduced field staff turnover rates and have improved High Arctic’s ability to respond to activity demands while retaining High Arctic’s strong safety and operational performance. As seen in the third and fourth 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 is a net positive to the operating results.

While activity levels for the Corporation’s well servicing operations remain strong, low natural gas prices and oil price differentials continue to hamper activity for the Corporation’s snubbing and N2 operations. We expect market conditions in Canada to remain challenging for both organic growth and consolidation opportunities.

The acquisition of Powerstroke has opened a new market for snubbing and well services in the United States and management looks forward to exploring growth opportunities. High Arctic continues to pursue opportunities to move under utilized assets in Canada to redeploy into the United States where there is better utilization and day rates.

In Papua New Guinea, we see strong potential for increasing activity depending on the specific timing of the expansion of LNG export capacity. The announcement made by Prime Minister Peter O’Neil that a Memorandum of Understanding was signed setting key terms and conditions for a Gas Agreement with the Papua LNG project consortium and indicating a fully-termed LNG Gas Agreement may be signed by the end of March 2019 is very encouraging. Combined with the parallel project of co-habited PNG-LNG expansion train, the proposed facility is expected to double LNG export capacity in PNG and project partners have indicated target timing for commencement of LNG shipments from expansion production in 2024. Based on exploration license commitments and increased optimism ahead of the LNG expansion, we expect drilling activity to increase in PNG later in 2019.

Following the three-year contract renewal in Q3 in PNG, Rigs 103 and 104 remained active through the quarter. Rig 103 completed its operations at the IST3 well site and moved to the IDT21 well site in mid December and, subsequent to year end, Rig 103 completed preliminary works on the IDT21 well and “walked” over to IHT1 well on the same drilling pad and conducted works, Rig 103 will continue with infield well works for most of 2019. Rig 104 completed its move and rig up at the Muruk 2 appraisal well site and was drilling at year end, Rig 104 is currently conducting works in the Muruk 2 well bore to assist our customer and their partners with obtaining well and reservoir technical data, Rig 104 will continue working on Muruk 2 with possible additional delineation works to be undertaken before commencing work to fly the rig and associated equipment off the well site. The take-or-pay contract for Rig 116 expired on November 2 and the rig is currently stacked in Port Moresby. Rig 115 was demobilised during the third quarter and is also cold stacked in Port Moresby, both Rig 115 and 116 are being offered for services both within PNG and abroad.

## Financial Risk Management

**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 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 two large customers (2017 – two) which individually accounted for greater than 10% of its consolidated revenues during the year ended December 31, 2018. Sales to these two customers were approximately $86.7 million and $23.2 million for the year ended December 31, 2018 (2017 - $63.2 million and $31.7 million). As at December 31, 2018, these two customers represented 49% and 1% respectively of outstanding accounts receivable (December 31, 2017 – two customers represented a total of 56%). Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with these customers.

The Corporation's accounts receivable is aged as follows:

| **Days outstanding:** | **December 31, 2018** | **December 31, 2017** |
|---|---|---|
| Less than 31 days | 17.4 | 18.0 |
| 31 to 60 days | 11.3 | 13.7 |
| 61 to 90 days | 5.0 | 5.7 |
| Greater than 90 days | 2.9 | 3.1 |
| Allowance for doubtful accounts | (0.1) | (0.1) |
| **Total** | **36.5** | **40.4** |

**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 year ended December 31, 2018, a 0.10 basis point change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $1.3 million change in net earnings for the quarter as a result of changes in foreign exchange.

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

| (millions) | U.S. Dollar[1] (in USD) | PNG Kina[2] (in Kina) | Australian Dollar[3] (in AUD) |
|---|---|---|---|
| Cash and cash equivalents | 12.5 | 3.1 | 0.3 |
| Trade and other receivables | 14.3 | - | - |
| Trade and other payables | (9.1) | (0.7) | (0.6) |
| **Total** | **17.7** | **2.4** | **(0.3)** |

(1) As at December 31, 2018, one U.S. dollar was equivalent to 1.3642 Canadian dollars.
(2) As at December 31, 2018, one PNG Kina was equivalent to 0.2970 Canadian dollars.
(3) As at December 31, 2018, one Australian dollar was equivalent to 0.9616 Canadian dollars.

As at December 31, 2018 U.S. $3.2 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 and again approved the U.S. dollar denomination and settlement of all new agreements executed this quarter, however, if such approval is withdrawn in the future 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 Judgements

Information on the Corporation's critical accounting policies, estimates and judgements can be found in the notes to the annual audited consolidated financial statements for the year ended December 31, 2018.

## 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, 2018.

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 audited December 31, 2018 consolidated financial statements for further details on the adoption of this standard.

## Future Accounting Pronouncements

**Leases**

IFRS 16, *Leases*, was issued in January 2016 and replaces the previous guidance on leases, including IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a lease*. The standard provides a single recognition and measurement model to be applied to leases, with required recognition of asset and liabilities for most leases. The new standard is effective for annual periods beginning on or after January 1, 2019.

IFRS 16 brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. A right-of-use asset and corresponding liability will be recognized for all leases by the lessee except for short-term leases and leases of low dollar value assets.

The adoption of IFRS 16 is expected to have an impact on the Financial Statements, as the Corporation's assessment indicates that many of the operating lease arrangements will meet the definition of a lease under IFRS 16 and thus be recognized in the Statement of Financial Position as a right-of-use asset with a corresponding liability. In addition, the nature of expenses related to these arrangements will change as the Corporation will be required to disclose the deprecation relating to the right-of-use assets and interest relating to the lease obligations separately in the notes to the Financial Statements. Also, the classification of cash flows will be impacted as the current presentation of lease payments as operating cash flows will be split into financing (principal portion) and operating (interest portion) cash flows under IFRS 16.

Lessor accounting will not significantly change under the new standard. However, some differences may arise as a result of new guidance on the definition of a lease. Under IFRS 16 a contract is, or contains a lease, if the contract conveys control of the use of an identified asset for a period of time in exchange for some form of consideration. The Corporation is finalizing its assessment as to whether this new guidance will impact the treatment of current contracts for its international drilling rigs.

On initial adoption, the Corporation will use the modified retrospective transition approach, as well will elect to use the following practical expedients permitted under the standard:

(a) Apply a single discount rate to a portfolio of leases with similar characteristics;

(b) Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases; and

(c) Account for lease payments as an expense and not recognize a right-of-use ("ROU") asset if the underlying asset is of low dollar value.

The Corporation is finalizing its assessment of the standard and anticipates IFRS 16 will result in a material right-of-use asset and lease liability recorded on the balance sheet.

## Disclosure Controls and Procedure

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have designed, or have caused to be designed under their supervision, the Corporation's disclosure controls and procedures, as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, to ensure timely and accurate preparation of financial and other reports. Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that material information required to be disclosed in its annual filings, interim filings or other reports filed by it under securities legislation is accurate and complete and filed within the time periods required and that information required to be disclosed is accumulated and communicated to the appropriate members of management to allow timely decisions regarding required disclosure.

The CEO and the CFO oversee this design and evaluation process and have concluded, based on their evaluation as at December 31, 2018, that the design and operation of the Corporation's DC&P, as defined by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, were effective. The CEO and the CFO have individually signed certifications to this effect. High Arctic will continue to evaluate the DC&P and will make modifications when necessary. There were no changes in the Corporation's DC&P during the year ended December 31, 2018 which have materially affected, or are reasonably likely to materially affect High Arctic's DC&P.

## Internal Controls Over Financial Reporting

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Corporation's CEO and CFO are responsible for designing, or causing to be designed under their supervision, internal controls over financial reporting related to the Corporation, including its consolidated subsidiaries.

During the year, the Corporation's management, under the supervision of and with the participation of its CEO and CFO, completed an assessment on the design and effectiveness of ICFR. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework 2013. The assessment includes a risk-based evaluation, documentation and testing of key processes. All internal control systems, no matter how well designed, have inherent limitations.

Based on the evaluation of the design and operating effectiveness of the Corporation's ICFR, the CEO and CFO concluded that the Corporation's ICFR are effective as at December 31, 2018. The design of internal controls must also consider resource constraints. It should be noted that a control system, including the Corporation's DC&P and ICFR, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met, and it should not be expected that the Corporation's DC&P and ICFR will prevent all errors or fraud.

## 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, 2018, which are specifically incorporated by reference herein. The AIF is available on SEDAR at www.sedar.com, a copy of which can be obtained on request, without charge, from the Corporation.

## Non-IFRS Measures

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

**EBITDA**

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

**Adjusted EBITDA**

Adjusted EBITDA is calculated based on EBITDA (as referred to above) prior to the effect of share-based compensation, gains or losses on sales or purchases of assets or investments, business acquisition costs, other costs related to consolidating facilities, 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 and year ended December 31:

| $ millions | Three Months Ended December 31, 2018 | Three Months Ended December 31, 2017 | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|---|---|
| **Net earnings (loss) for the period** | **(2.3)** | 3.5 | **11.4** | 20.3 |
| Add: | | | | |
| Interest and finance expense | **0.2** | 0.1 | **0.6** | 1.0 |
| Income taxes | **1.8** | 1.6 | **11.0** | 11.1 |
| Depreciation | **6.4** | 6.6 | **25.7** | 25.9 |
| **EBITDA** | **6.1** | 11.8 | **48.7** | 58.3 |
| Adjustments to EBITDA: | | | | |
| Other expenses | **-** | - | **0.8** | - |
| Share-based compensation | **0.2** | 0.5 | **1.4** | 0.7 |
| Loss (gain) on sale of assets | **-** | - | **(0.1)** | - |
| Foreign exchange (gain) loss | **0.3** | 0.1 | **0.8** | (0.7) |
| **Adjusted EBITDA** | **6.6** | 12.4 | **51.6** | 58.3 |

**Adjusted Net Earnings**

Adjusted net earnings is calculated based on net earnings prior to the effect of costs not incurred in the normal course of business, such as consolidating facilities, gains and transaction costs incurred for acquisitions. Management utilizes Adjusted net earnings to present a measure of financial performance that is more comparable between periods. Adjusted net earnings (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 tables provide a quantitative reconciliation of net earnings (loss) to Adjusted net earnings (loss) for the three months and year ended December 31:

| $ millions | Three Months Ended December 31, 2018 | Three Months Ended December 31, 2017 | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|---|---|
| **Net earnings (loss) for the period** | **(2.3)** | 3.5 | **11.4** | 20.3 |
| Adjustments to net earnings (loss): | | | | |
| Other expenses | - | - | 0.8 | - |
| **Adjusted net earnings (loss)** | **(2.3)** | 3.5 | **12.2** | 20.3 |

**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 (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.

| $ millions | Three Months Ended December 31, 2018 | Three Months Ended December 31, 2017 | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|---|---|
| **Revenue** | **47.8** | 51.5 | **203.3** | 210.2 |
| Less: | | | | |
| Oilfield services expense | **37.6** | 35.1 | **135.5** | 134.8 |
| **Oilfield Services Operating Margin** | **10.2** | 16.4 | **67.8** | 75.4 |
| **Oilfield Services Operating Margin (%)** | **21%** | 32% | **33%** | 36% |

**Percent of Revenue**

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

**Funds Provided from Operations**

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

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

The following tables provide a quantitative reconciliation of net cash generated from operating activities to funds provided from operations for the three months and year ended December 31:

| $ millions | Three Months Ended December 31, 2018 | Three Months Ended December 31, 2017 | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|---|---|
| **Net cash generated from operating activities** | **16.5** | 5.8 | **42.1** | 34.3 |
| Less: | | | | |
| Net changes in items of non-cash working capital | **(14.5)** | 3.5 | **(5.3)** | 10.9 |
| **Funds provided from operations** | **2.0** | 9.3 | **36.8** | 45.2 |

### 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:

| | As At | |
|---|---|---|
| $ millions | December 31, 2018 | December 31, 2017 |
| **Current assets** | **80.4** | 77.1 |
| Less: | | |
| **Current liabilities** | **(23.6)** | (23.4) |
| **Working capital** | **56.8** | 53.7 |

### 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:

| | As At | |
|---|---|---|
| $ millions | December 31, 2018 | December 31, 2017 |
| **Cash and cash equivalents** | **31.5** | 22.1 |
| Less: | | |
| Long-term debt | **-** | - |
| **Net cash** | **31.5** | 22.1 |

## Forward-Looking Statements

This MD&A contains forward-looking statements. When used in this document, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “anticipate”, “believe”, “seek”, “propose”, “estimate”, “expect”, and similar expressions are intended to identify forward-looking statements. Such statements reflect the Corporation’s current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation’s actual results, performance or achievements to vary from those described in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this MD&A include, among others, statements pertaining to the following: general economic and business conditions which will, among other things, impact demand for and market prices for the Corporation’s services; expectations regarding the Corporation’s ability to raise capital and manage its debt obligations; commodity prices and the impact that they have on industry activity; estimated capital expenditure programs for fiscal 2019 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.

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.