Management's Discussion and Analysis
For the Three and Six Months Ended June 30, 2019 and 2018

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 August 8, 2019 and should be read in conjunction with the unaudited consolidated interim financial statements for the three and six months ended June 30, 2019 and 2018 (the "Financial Statements") and the audited consolidated financial statements for the years ended December 31, 2018 and 2017. 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 20 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 June 30			Six Months Ended June 30		
$ millions (except per share amounts)	2019	2018	% Change	2019	2018	% Change
Revenue	**46.6**	47.1	(1%)	**93.1**	100.8	(8%)
EBITDA(1)	**4.6**	12.9	(64%)	**10.8**	25.6	(58%)
Adjusted EBITDA(1)	**4.0**	13.9	(71%)	**9.5**	27.6	(66%)
Adjusted EBITDA % of revenue	**9%**	30%	(70%)	**10%**	27%	(63%)
Operating earnings (loss)	**(2.9)**	7.2	(140%)	**(4.7)**	13.9	(134%)
Net earnings (loss)	**(4.0)**	1.8	(322%)	**(5.0)**	6.2	(181%)
per share (basic and diluted)(2)	**(0.08)**	0.04	(300%)	**(0.10)**	0.12	(183%)
Adjusted Net earnings (loss)(1)	**(4.0)**	2.4	(267%)	**(5.0)**	6.8	(174%)
per share (basic and diluted)(2)	**(0.08)**	0.05	(260%)	**(0.10)**	0.13	(177%)
Funds provided from operations(1)	**2.1**	8.6	(76%)	**6.9**	20.5	(66%)
per share (basic and diluted)(2)	**0.04**	0.17	(76%)	**0.14**	0.39	(64%)
Dividends	**2.5**	2.6	(4%)	**5.0**	5.2	(4%)
per share(2)	**0.05**	0.05	0%	**0.10**	0.10	0%
Capital expenditures	**4.3**	1.3	231%	**6.9**	3.9	77%

	As at		
	June 30, 2019	December 31, 2018	% Change
Working capital(1)	**37.5**	56.8	(34%)
Total assets	**258.0**	272.4	(5%)
Total non-current financial liabilities	**19.5**	14.6	34%
Net cash, end of period(1)	**14.7**	31.5	(53%)
Shareholders' equity	**214.9**	234.2	(8%)
Shares outstanding	**49.8**	51.0	(2%)

(1) Readers are cautioned that EBITDA, Adjusted EBITDA, Adjusted net earnings (loss), Funds from operations, working capital and Net cash do not have standardized meanings prescribed by IFRS – see "Non IFRS Measures" on page 20 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 15 of 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 2018 third quarter acquisition of Powerstroke and Saddle Well Services have been reported within the Production Services segment as have the revenue, expenses and assets related to the 2019 second quarter acquisition of Precision Drilling snubbing business.

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 generated revenue of $46.6 million in the second quarter of 2019, a decrease of $0.5 million or 1% lower than the comparable second quarter of 2018. Year to date, revenue was $93.1 million compared to $100.8 million in 2018, an 8% decrease year on year. These results were driven by low customer demand in Canada carried over from 2018 and the Q4 2018 take or pay contract expiry for Rig 116. Canadian well servicing demonstrated strong performance with both operating hours and revenue per hour being marginally above the same period last year. This increase was offset with non-recurring expenses associated with absorbing the snubbing acquisition and startup costs for two additional units deployed to the United States.

The Corporation's strategic priorities remain targeted on:

- Regional work force development to strengthen safety, expertise, work standards and local communities.
- A strong capital structure to provide liquidity and strength throughout the energy services economic cycles.
- Specialty niche operations with noteworthy barriers to entry.
- Deep value opportunities to consolidate existing markets and diversify into new regions.
- Solidifying customer relationships to gain market share and expand when industry conditions permit.
- Disciplined capital allocation to deliver shareholder value consistent with past performance.

Execution on these strategic priorities led to the following noteworthy developments during the first half of 2019:

- Safety excellence, no recordable incidents, and further delivery on training and education initiatives.
- Preservation of a strong capital structure characterized by no long-term debt.
- High performing operating capabilities in pressure control snubbing and deep heli-portable drilling.
- Further consolidation of the pressure control snubbing business in Canada.
- Further diversification of revenue with snubbing and well servicing expansion to the United States.

Second Quarter 2019:

- High Arctic reported revenue of $46.6 million ($47.1 million in 2018), net loss of $(4.0) million ($1.8 million gain in 2018) and Adjusted EBITDA of $4.0 million ($13.9 million in 2018).
- Utilization for High Arctic's 59 registered Concord Well Servicing rigs was 53% in the quarter versus industry utilization of 35% (source: Canadian Association of Oilwell Drilling Contractors "CAODC") generating more hours than previous periods and increasing market share while providing safety excellence to our customers.
- Deployment of two units to the United States generated non-recurring costs of $1.5 million for move and refurbishment expenses.
- PNG activity was up slightly with two rigs working the entire quarter. The expiry of the Rig 116 take or pay contract in November 2018 represented, a decrease of $6.4 million year over year in EBITDA.

Year to Date 2019:

- High Arctic reported revenue of $93.1 million ($100.8 million in 2018), net loss of $(5.0) million ($6.2 million gain in 2018) and Adjusted EBITDA of $9.5 million ($27.6 million in 2018).
- Utilization for High Arctic's 59 registered Concord Well Servicing rigs was 55% year to date versus industry utilization of 42% (source: Canadian Association of Oilwell Drilling Contractors "CAODC").
- High Arctic declared $5.0 million ($0.10 per share) in dividends year to date. High Arctic repurchased and cancelled 1,257,127 shares with a value of $4.7 million under the Corporation's NCIB during 2019 resulting in a total of $9.7 million being returned to shareholders via dividends and share repurchases.
- High Arctic continues to maintain a strong financial position with $14.7 million in net cash, an undrawn $45 million credit facility and a positive working capital position of $37.5 million.

Business Acquisition

On April 15, 2019, High Arctic acquired the assets of Precision Drilling's snubbing services equipment, entirely located in Canada, providing High Arctic with additional quality snubbing equipment and access to experienced personnel and crews. The purchase price of $8.25 million was settled in cash from cash on hand. The acquisition provides High Arctic with twelve additional marketed snubbing units, seven of which have been active over the last twelve months. This will provide additional capacity to further strategic diversification and growth in the United States. It will also increase High Arctic's fleet size, scale and capability in Canada to meet the needs of customers through safe and efficient services designed to increase production and lower costs. At quarter end, High Arctic owns and operates the largest snubbing fleet in Canada consisting of a total of 33 snubbing units.

Consolidated Results

($ millions)	Three Months Ended June 30 2019	2018	Change	%	Six Months Ended June 30 2019	2018	Change	%
Revenue	**46.6**	47.1	(0.5)	(1%)	**93.1**	100.8	(7.7)	(8%)
EBITDA(1)	**4.6**	12.9	(8.3)	(64%)	**10.8**	25.6	(14.8)	(58%)
Adjusted EBITDA(1)	**4.0**	13.9	(9.9)	(71%)	**9.5**	27.6	(18.1)	(66%)
Adjusted EBITDA % of Revenue	**9%**	30%	(21%)	(70%)	**10%**	27%	(17%)	(63%)
Net earnings (loss)	**(4.0)**	1.8	(5.8)	(322%)	**(5.0)**	6.2	(11.2)	(181%)
per share (basic and diluted)(2)	**(0.08)**	0.04	(0.12)	(300%)	**(0.10)**	0.12	(0.22)	(183%)
Adjusted net earnings (loss)(1)	**(4.0)**	2.4	(6.4)	(267%)	**(5.0)**	6.8	(11.8)	(174%)
per share (basic and diluted)(2)	**(0.08)**	0.05	(0.13)	(260%)	**(0.10)**	0.13	(0.23)	(177%)

(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 20 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 15 of the Financial Statements.

Second Quarter:

- Revenue for the Corporation's Drilling Services segment decreased by $2.7 million in the second quarter of 2019 compared to the second quarter of 2018 and Ancillary Services revenue decreased $0.9 million. This was offset by the Production Services revenue increase of $3.0 million year over year. Consolidated revenue decreased 1% to $46.6 million in the quarter from $47.1 million in the second quarter of 2018.

- The decrease in consolidated revenue combined with the decreased contribution from the Drilling Services segment resulted in Adjusted EBITDA decreasing to $4.0 million in the quarter from $13.9 million in the second quarter of 2018. The decreased revenue and increase in oilfield services expenses resulted in a decrease in Net earnings to $(4.0) million, (($0.08) per share (basic)) in the quarter versus $1.8 million, ($0.04 per share (basic)) in the second quarter of 2018.

Year to Date 2019:

- Revenue for the Corporation's Drilling Services segment decreased by $7.4 million in the first half of 2019 compared to the same period in 2018 while Ancillary Services revenue decreased by $3.0 million. This was partially offset by the revenue increase provided by Production Services. Consolidated revenue decreased 8% to $93.1 million year to date from $100.8 million in the same period of 2018.

- Adjusted EBITDA decreased to $9.5 million in the first half of 2019 from $27.6 million in the same period of 2018. Net Earnings decreased to $(5.0) million, (($0.10) per share (basic)) for the six months ended June 30, 2019 versus $6.2 million, ($0.12 per share (basic)) in the same period of 2018.

Operating Segments

Segmented Financial Results

	Three Months Ended June 30				Six Months Ended June 30			
($ millions)	2019	2018	Change	%	2019	2018	Change	%
Revenue:								
Drilling Services	**20.5**	23.2	(2.7)	(12%)	**39.3**	46.7	(7.4)	(16%)
Production Services	**21.0**	18.0	3.0	17%	**43.8**	41.3	2.5	6%
Ancillary Services	**5.9**	6.8	(0.9)	(13%)	**11.6**	14.6	(3.0)	(21%)
Inter-segment eliminations	**(0.8)**	(0.9)	0.1	(11%)	**(1.6)**	(1.8)	0.2	(11%)
	46.6	**47.1**	(0.5)	(1%)	**93.1**	**100.8**	(7.7)	(8%)
Oilfield Service Operating Margin (1)								
Drilling Services	**4.3**	10.6	(6.3)	(59%)	**8.5**	19.6	(11.1)	(57%)
Production Services	**0.0**	3.3	(3.3)	(100%)	**2.1**	7.4	(5.3)	(72%)
Ancillary Services	**3.8**	4.5	(0.7)	(16%)	**6.7**	9.4	(2.7)	(29%)
	8.1	**18.4**	(10.3)	(56%)	**17.3**	**36.4**	(19.1)	(52%)
Oilfield Service Operating Margin Percentage (1)								
Drilling Services	**21%**	46%	(25%)	(54%)	**22%**	42%	(20%)	(48%)
Production Services	**0%**	18%	(18%)	(100%)	**5%**	18%	(13%)	(73%)
Ancillary Services	**64%**	66%	(2%)	(3%)	**58%**	64%	(6%)	(9%)
	17%	39%	(22%)	(56%)	**19%**	36%	(18%)	(49%)

(1) See 'Non-IFRS Measures' on page 20

Drilling Services

	Three Months Ended June 30				Six Months Ended June 30			
($ millions)	2019	2018	Change	%	2019	2018	Change	%
Revenue	**20.5**	23.2	(2.7)	(12%)	**39.3**	46.7	(7.4)	(16%)
Oilfield services expense (1)	**16.2**	12.6	3.6	29%	**30.8**	27.1	3.7	14%
Oilfield services operating margin (1)	**4.3**	**10.6**	**(6.3)**	**(59%)**	**8.5**	**19.6**	**(11.1)**	**(57%)**
Operating margin (%)	**21%**	46%	(25%)	(54%)	**22%**	42%	(20%)	(48%)

(1) See 'Non-IFRS Measures' on page 20

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.

Second Quarter:

Drilling Services revenue decreased 12% in the quarter to $20.5 million from $23.2 million in the second quarter of 2018. This decrease was due primarily to the end of the take or pay contract for Rig 116 which generated $6.4 million in the second quarter of 2018.

Rig 103 operated continuously during the quarter while Rig 104 operated at the Muruk 2 exploration wellsite for two months and then commenced disassembly and movement back to Moro Base in June. Rig 115 and Rig 116 were preserved in cold stack during the quarter and remain ready to redeploy.

Year to Date 2019:

Drilling Services revenue decreased 16% to $39.3 million from $46.7 million year to date. This decrease was again due to lower drilling activity and the end of the take or pay contract for Rig 116 in the fourth quarter of 2018 which is reflected in the 2018 year to date numbers.

Rig 115 and Rig 116 have been in cold stack throughout 2019 and remain ready to redeploy.

Production Services

	Three Months Ended June 30				Six Months Ended June 30			
($ millions)	**2019**	**2018**	**Change**	**%**	**2019**	**2018**	**Change**	**%**
Revenue	**21.0**	18.0	3.0	17%	**43.8**	41.3	2.5	6%
Oilfield services expense (1)	**21.0**	14.7	6.3	43%	**41.7**	33.9	7.8	23%
Oilfield services operating margin (1)	**0.0**	**3.3**	**(3.3)**	**(100%)**	**2.1**	**7.4**	**(5.3)**	**(72%)**
Operating margin (%)	**0%**	18%	(18%)	(100%)	**5%**	18%	(13%)	(72%)
Operating Statistics - Canada:								
Service rigs								
Average Fleet (2)	57	57	-	0%	57	57	-	0%
Utilization (3)	54%	53%	1%	2%	54%	58%	-4%	(7%)
Operating hours	27,889	27,420	469	2%	55,299	59,604	(4,305)	(7%)
Revenue per hour	606	600	6	1%	620	618	2	0%
Snubbing rigs								
Average Fleet (4)	18	8	10	125%	18	8	10	125%
Utilization (3)	10%	14%	(4%)	(30%)	14%	20%	(6%)	(30%)
Operating hours	1,565	996	569	57%	4,490	2,871	1,619	56%
Operating Statistics - United States:								
Service rigs								
Average Fleet	2	-	2	0%	2	-	2	0%
Utilization (3)	51%	-	51%	0%	40%	-	40%	0%
Operating hours	932	-	932	0%	1,435	-	1,435	0%
Revenue per hour	997	-	997	0%	1001	-	1,001	0%
Snubbing rigs								
Average Fleet (4)	5	-	5	0%	5	-	5	0%
Utilization (3)	23%	-	23%	0%	24%	-	24%	0%
Operating hours	1,063	-	1,063	0%	2,144	-	2,144	0%

(1) See 'Non-IFRS Measures' on page 20
(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 and includes acquisition of Precision Drilling snubbing units in 2019.

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 2019 or 2018 and as such no revenue was generated or costs incurred associated with this rig during the periods presented.

Second Quarter:

Increased quarter over quarter activity for High Arctic's Concord Well Servicing rigs and the Corporation's snubbing operations resulted in a 17% increase in revenue for the Production Services segment to $21.0 million in the quarter versus $18.0 million in the second quarter of 2018. Operating hours for the Concord rigs increased 5% to 28,821 hours in the quarter from 27,420 hours in the second quarter of 2018. Consistent with prior quarters, the Concord rigs achieved above industry utilization of 53% versus the 35% 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, rig mix allowed the average revenue per hour for the Concord rigs to increase to $606 per hour in the quarter from $600 per hour in the comparative quarter in 2018.

The contribution from the Powerstroke acquisition and Precision Drilling snubbing acquisition resulted in an increase in the Production Services snubbing operations which saw revenue increase to $3.2 million in the quarter versus the $1.5 million generated in the second quarter of 2018. Operating hours for the snubbing rigs in the quarter were 2,628 versus 996 hours in the second quarter of 2018.

Operating margin decreased 100% compared to the same quarter in 2018. The decrease in margin is primarily due to extra costs related to expansion into the US and higher costs associated with repairs and maintenance programs undertaken in the quarter during slower activity early in the quarter with spring breakup.

Year to Date 2019:

Increased overall activity for High Arctic's Concord Well Servicing rigs and the Corporation's snubbing operations resulted in a 6% increase in revenue for the Production Services segment to $43.8 million year to date versus $41.3 million in 2018. Operating hours for the Concord rigs decreased 5% to 56,734 hours year to date from 59,604 hours in 2018. Concord rigs achieved above industry utilization of 55% versus the 42% utilization generated by the industry's registered well servicing rigs (source: CAODC). Average revenue per hour for the Concord rigs increased to $620 per hour year to date from $618 per hour in 2018.

Ancillary Services

	Three Months Ended June 30				Six Months Ended June 30			
($ millions)	**2019**	**2018**	**Change**	**%**	**2019**	**2018**	**Change**	**%**
Revenue	**5.9**	6.8	(0.9)	(13%)	**11.6**	14.6	(3.0)	(21%)
Oilfield services expense (1)	**2.1**	2.3	(0.2)	(9%)	**4.9**	5.2	(0.3)	(6%)
Oilfield services operating margin (1)	**3.8**	**4.5**	**(0.7)**	**(16%)**	**6.7**	**9.4**	**(2.7)**	**(29%)**
Operating margin (%)	**64%**	66%	(2%)	(3%)	**58%**	64%	(6%)	(9%)

(1) Revenue includes inter-segment revenue charged to Production Services and Drilling Services from Ancillary Services division of $0.9 million for the quarter. In 2018 inter-segment revenue was $0.9 million for the quarter.
(2) See 'Non-IFRS Measures' on page 20

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.

Second Quarter:

All contributing divisions of this segment showed decreases during the quarter relative to the second quarter in 2018 driven by lower activity levels.

Operating margin as a percentage of revenue decreased slightly to 64% in the quarter versus 66% in the second quarter of 2018. Despite the decline in revenue, margins held up well due to firm revenue pricing.

Year to Date:

Operating margin as a percentage of revenue has decreased to 58% year to date versus 64% in 2018. Again, the decrease is due to the decreased contribution from higher margin divisions.

General and Administration

	Three Months Ended June 30				Six Months Ended June 30			
($ millions)	2019	2018	Change	%	2019	2018	Change	%
General and administration	**4.1**	4.5	(0.4)	(9%)	**7.8**	8.8	(1.0)	(11%)
Percent of revenue	**9%**	10%	(1%)	(10%)	**8%**	9%	(1%)	(11%)

General and administrative costs decreased $0.4 million to $4.1 million in the second quarter 2019 compared to 2018 and $1.0 million year over year as a result of cost reduction initiatives taken throughout 2018. General and administrative costs as a percentage of revenue decreased 1% quarter over quarter and 1% year over year.

Depreciation

Depreciation expense increased to $6.8 million in the second quarter from $6.4 million in the second quarter 2018 due to additional depreciation resulting from the Precision Drilling asset acquisition and the adoption of IFRS 16, Leases (“IFRS 16”).

Year to date, the Corporation incurred depreciation costs of $13.8 million versus $12.8 million year to date 2018. The Corporation has incurred depreciation costs of $0.8 million associated with right of use assets in 2019 as a result of the adoption of IFRS 16 offset by a reduction in operating lease expense by the same amount.

Share-based Compensation

The decrease in share-based compensation to $0.1 million in the second quarter and $0.4 million year to date from $0.3 million and $0.9 million in the respective periods in 2018 is a result of the reduction in the number of shares granted under share-based incentive programs.

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 with an average exchange rate of $1.3375 during the second quarter of 2019 (2018 – $1.2912). 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 June 30, 2019, the U.S. dollar exchange rate was 1.3087 versus 1.3363 at the end of Q1 2019 and 1.3168 as at June 30, 2018. Although year on year the US dollar strengthened against the Canadian dollar, the U.S. dollar weakened from the end of 2018 through Q2 resulting in a translation loss of $2.0 million recorded in other comprehensive income for the quarter ended and $5.0 million loss for the six months ended June 30, 2019 ($3.1 million gain for the three months ended June 30, 2018 and $7.0 million gain for the six months ended June 30, 2018).

The small change in exchange rates for the period resulted in a foreign exchange gain of $0.2 million being recorded on the various foreign exchange transactions (2018 - $0.7 million loss). 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 $0.2 million in bank fees and other interest charges and have incurred $0.4 million year to date ($0.1 million in Q2 2018 and $0.2 million year to date 2018).

Income Taxes

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Net earnings (loss) before income taxes	**(2.4)**	6.4	(8.8)	**(3.4)**	12.6	(16.0)
Current income tax expense	**1.7**	4.4	(2.7)	**2.2**	6.0	(3.8)
Deferred income tax expense (recovery)	**(0.1)**	0.2	(0.3)	**(0.6)**	0.4	(1.0)
Total income tax expense	**1.6**	4.6	(3.0)	**1.6**	6.4	(4.8)
Effective tax rate	**-67%**	72%		**-47%**	51%	

During the second quarter of 2018 the Corporation paid $1.0 million in withholding taxes on the payment of intercompany dividends from PNG to Canada versus $2.2 million paid out in the second quarter of 2018. The deferred income tax recovery is due to changes in timing differences between tax and accounting depreciation in PNG.

As at June 30, 2019, High Arctic had $161.1 million in unrecognized tax pools, consisting of $122.8 million in non-capital loss pools and $38.3 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.

In 2019, the Province of Alberta announced reductions to corporate income tax rates, that when fully implemented will decrease the provincial corporate income tax rate from 12% to 8% by 2022.

Other Comprehensive Income (Loss)

As discussed above under Foreign Exchange Transactions, the Corporation recorded a $2.0 million foreign currency translation loss in other comprehensive income (loss) in the second quarter as compared to a gain of $3.1 million in the second quarter of 2018.

During the six months ended June 30, 2019, the Corporation recognized realized losses on its short-term investments in the second quarter through the sale of the total outstanding owned shares.

Liquidity and Capital Resources

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	2019	2018	Change	2019	2018	Change
Cash provided by (used in):						
Operating activities	**8.9**	15.9	(7.0)	**8.9**	20.7	(11.8)
Investing activities	**(12.3)**	(1.0)	(11.3)	**(13.7)**	(3.7)	(10.0)
Financing activities	**(4.8)**	(6.9)	2.1	**(10.6)**	(11.5)	0.9
Effect of exchange rate changes	**(0.1)**	0.4	(0.5)	**(1.4)**	0.5	(1.9)
Increase (decrease) in cash and cash equivalents	**(8.3)**	8.4	(16.7)	**(16.8)**	6.0	(22.8)

	As At		
	June 30, 2019	December 31, 2018	Change
Working capital[1]	37.5	56.8	(19.3)
Working capital ratio[1]	2.6 : 1	3.4 : 1	0.8:1
Net cash[1]	14.7	31.5	(16.8)
Undrawn availability under debt facilities	45.0	45.0	0.0

(1) See 'Non-IFRS Measures' on page 20

As at June 30, 2019, the Corporation had $nil outstanding on its debt facilities and $14.7 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 decrease in net earnings and working capital, offset by the increase in deferred tax recovery and depreciation has resulted in funds provided from operations to decrease to $8.9 million from $15.9 million quarter on quarter 2019 to 2018.

The reduced year to date net earnings combined with increased depreciation offset by reduced share based compensation, increased gain on sale of assets, increase in foreign exchange gain and deferred tax recovery has resulted in funds provided from operations to decrease to $8.9 million from $20.7 million in the first six months of 2019.

Investing Activities

In the second quarter the Corporation has invested $4.3 million (2018 - $1.3 million) in capital expenditures primarily related to maintenance capital and upgrades to the Corporation's well servicing rigs. During the second quarter, High Arctic completed the acquisition of Precision Drilling snubbing business valued at $8.3 million.

Year to date the Corporation has invested an additional $6.9 million (2018 - $3.9 million) in capital expenditures 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 and the acquisition of the Precision Drilling assets. The Corporation has also generated $1.0 million on the sale of short term investments and $1.4 million on the disposal of assets.

Financing Activities

During the quarter, the Corporation distributed $2.5 million in dividends to its shareholders. In addition, the Corporation purchased and cancelled 486,976 shares for a total of $1.8 million under its NCIB, resulting in a total of $4.3 million being returned to shareholders via dividends and share buybacks during the quarter.

For the six months ended June 30, the Corporation distributed $5.0 million in dividends to its shareholders. In addition, the Corporation purchased and cancelled 1,257,127 shares for a total of $4.7 million under its NCIB, resulting in a total of $9.7 million being returned to shareholders via dividends and share buybacks year to date.

Credit Facility

As at June 30, 2019, 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 June 30, 2019, 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	June 30, 2019
Funded debt to EBITDA (1)(4)	2.50 : 1 Maximum	0.22 : 1
Current ratio (2)	1.25 : 1 Minimum	2.59 : 1
Fixed charge coverage ratio (3)	1.25 : 1 Minimum	5.91 : 1

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

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

(3) Fixed charge coverage ratio is defined as covenant 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), share 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 June 30, 2019 and the Corporation remains in compliance with the financial covenants under its credit facility as at June 30, 2019.

Contractual Obligations and Contingencies

High Arctic's contractual financial obligations as at June 30, 2019 are summarized as follows:

($ millions)	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	20.3	-	-	-	20.3
Contingent Liability	0.3	-	-	-	0.3
Dividends payable	0.8	-	-	-	0.8
Lease liability	1.8	1.9	1.1	6.3	11.1
Total	**23.2**	**1.9**	**1.1**	**6.3**	**32.5**

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 $7.5 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 June 30, 2019, there were 49,760,218 issued and outstanding common shares. In addition, 1,117,000 options were outstanding at an average exercise price of $3.86 as well as 396,655 units under the Corporation's Performance Share Unit Plan and 163,372 units under the Deferred Share Unit plan.

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 1,503,215 common shares have been purchased and cancelled under this NCIB through June 30, 2019 at a cost of $5.2 million. A total of 486,976 common shares have been purchased and cancelled in Q2 2019 at a cost of $1.8 million.

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:

	2019		2018				2017	
$ (millions, except per share amounts)	Q2[(3)]	Q1	Q4[(2)]	Q3[(2)]	Q2	Q1	Q4	Q3
Revenue	**46.6**	**46.5**	**47.8**	**54.7**	**47.1**	**53.7**	**51.5**	**42.8**
Adjusted EBITDA[(1)]	4.0	5.5	6.6	17.4	13.9	13.7	12.4	10.6
Net earnings (loss)	(4.0)	(1.0)	(2.3)	7.5	1.8	4.4	3.5	2.8
per share - basic	(0.08)	(0.02)	(0.04)	0.14	0.04	0.08	0.06	0.06
Adjusted net earnings (loss)[(1)(2)(3)]	(4.0)	(1.0)	(2.3)	7.7	2.4	4.4	3.5	2.8
per share - basic	(0.08)	(0.02)	(0.4)	0.15	0.05	0.08	0.06	0.06
Funds provided from operations[(1)]	2.1	4.8	2.0	14.3	8.6	11.9	9.3	9.8

(1) See 'Non-IFRS Measures' on page 20
(2) Adjusted net earnings (loss) in Q3 and Q4 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.
(3) Adjusted net earnings (loss) in Q2 2019 excludes the impact of $0.7 million of income incurred related to the write down of the contingent liability associated with the Powerstroke acquisition in 2018.

Various factors have affected the quarterly profitability of the Corporation's operations. The take-or-pay contract for Rig 116 expired on November 2, 2018 resulting in reduced revenue and EBITDA in 2019. The corporation continues to promote the rig for service in PNG and abroad. The Corporation's results have also benefited from the Powerstroke and Saddle Well Services acquisitions which closed in 2018 and most recently the acquisition of Precision Drilling's snubbing business.

Seasonal conditions impact the Corporation's Canadian operations whereby frozen ground during the winter months tends to provide an optimal environment for drilling activities and consequently first quarter activity is typically the strongest. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. This period is generally referred to as spring break-up. Road bans, which are generally imposed in the spring, restrict the transportation of heavy equipment onto customer locations which reduces demand for services in the Canadian operations and, therefore, the second quarter is generally the weakest quarter of the year for the Corporation's operations in Canada.

Industry Indicators and Market Trends in PNG

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

	2019		2018				2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and natural gas prices (Average for the period)								
Brent Crude Oil *(U.S. $/bbl)* [(1)]	$63	$64	$68	$76	$75	$68	$61	$52
Japan LNG *(U.S. $/mmbtu)* [(2)]	$9.91	$11.87	$11.69	$10.73	$10.26	$8.98	$7.76	$8.33
U.S./Canadian dollar exchange rate	1.31	1.34	1.32	1.31	1.29	1.26	1.27	1.25

(1) Source: Sproule
(2) Source: World Bank Commodities Price Data

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.

	2019		2018				2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and natural gas prices								
Average for the period:								
West Texas Intermediate (U.S. $/bbl)[(1)]	$55	$55	$59	$69	$68	$63	$55	$48
West Canada Select (Cdn. $/bbl)[(1)]	$55	$57	$37	$62	$63	$49	$54	$47
Canadian Light Sweet Oil (Cdn $/bbl)[(1)]	$64	$67	$48	$76	$78	$70	$66	$57
AECO (C$/mmbtu)(1)	$0.61	$2.62	$1.62	$1.28	$1.20	$2.06	$1.72	$1.61
Other industry indicators								
Total wells drilled in Western Canada[(2)]	778	1,546	1,380	1,528	1,268	1,696	1,852	1,764
Average service rig utilization rates[(2)]	35%	48%	37%	41%	30%	47%	40%	39%
Average drilling rig utilization rates[(2)]	13%	29%	28%	30%	17%	41%	32%	30%

(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

The uncertainty surrounding the addition of takeaway capacity and the mandated crude oil production cuts in Alberta, have resulted in reduced capital budgets for many Canadian oil and gas operators for 2019. Extreme cold weather in January and February and prolonged spring breakup in certain operating areas also affected oil field activity in the first half of 2019. Overall activity levels in Canada are expected to be lower year over year for the balance of 2019. Maintaining a strong balance sheet and strict cost control are priorities for the Company, to continue operating effectively in an environment with surplus equipment and low prices for High Arctic services. 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.

High Arctic continues to examine opportunities to deploy existing assets from Canada into more active resource plays in the United States. High Arctic now has two well service packages and five Snubbing Units providing completion and production well servicing in the DJ Basin and the Williston Basin. Although start-up cost and establishing market share has been challenging to date, we are gaining steady work with leading operators as we build the scale necessary for sustainable operations.

The acquisition of Powerstroke opened a new market for snubbing and well services in the United States. The subsequent acquisition of Precision Drilling's snubbing assets provides High Arctic with additional quality equipment and access to experienced personnel and crews to continue to move under utilized assets in Canada into the United States where there is better utilization and day rates. The acquisitions result in High Arctic consolidating Canada Snubbing services and is the largest snubbing provider in Canada with 33 units estimated to represent 60% of the Canada market. Furthermore, High Arctic is now the largest snubbing operator in the DJ Basin with five active units.

In Papua New Guinea activity has continued to be light as the oil price and associated LNG pricing has remained subdued and with the prolonged negotiations between the State and the partners in the Papua LNG project for a gas agreement. However, we see strong potential for increasing activity depending on the specific timing of the expansion of LNG export capacity and in the maturation of exploration licences and the associated seismic exploration and drilling obligations in those licence blocks. The announcement made that a gas sales agreement was signed between the State of Papua New Guinea and Papua LNG in April 2019 was encouraging, however a change of Prime Minister and new ministerial appointments have seen the gas agreement be referred to ministerial review as the State looks to optimise its returns from future projects. Combined with the parallel project of co-habited PNG-LNG expansion train, the proposed Papua LNG facility is expected to double LNG export capacity in PNG and project partners have indicated they still target timing for commencement of LNG shipments from expansion production in 2024. Based on exploration license well commitments and increased optimism ahead of the LNG expansion, we expect drilling activity to increase in PNG from 2020.

In PNG, Rig 103 and 104 remained active through the quarter. Rig 103 continued with infield well works and we expect it to continue to do so into 2020. Rig 104 completed operations working on the Muruk 2 appraisal and commenced demobilization back to Moro where it being preserved for a short period of storage, this activity will continue through Q3. Rig 116 and Rig 115 are cold stacked in Port Moresby maintained in ready to deploy condition. Both Rig 115 and 116 continue to be offered for services both within PNG and abroad.

High Arctic continues to be active examining acquisitions domestically and abroad, that are consistent with our strategic objective of specialty niche operations with noteworthy barriers to entry, deep value opportunities to consolidate existing markets and diversify into new regions, solidifying customer relationships to gain market share and expand when industry conditions permit.

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 (2018 – three) which individually accounted for more than 10% of its consolidated revenues during the six months ended June 30, 2019. Sales to these two customers were approximately $46.1 million and $12.7 million for the six months ended June 30, 2019 (2018 - $41.4 million, $13.6 million and $11.1 million). As at June 30, 2019, these two customers represented 47% and 8% respectively of outstanding accounts receivable (June 30, 2018 – three customers represented a total of 71%). 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:	June 30, 2019	December 31, 2018
Less than 31 days	24.1	17.4
31 to 60 days	5.1	11.3
61 to 90 days	1.8	5.0
Greater than 90 days	3.0	2.9
Allowance for doubtful accounts	(0.1)	(0.1)
Total	**33.9**	**36.5**

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 quarter ended June 30, 2019, a 0.10 basis point change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $0.1 million change in net earnings (loss) for the quarter as a result of changes in foreign exchange.

The Corporation's financial instruments have the following foreign exchange exposure at June 30, 2019:

(millions)	U.S. Dollar[(1)] (in USD)	PNG Kina[(2)] (in Kina)	Australian Dollar[(3)] (in AUD)
Cash and cash equivalents	8.3	0.0	0.1
Trade and other receivables	10.9	0.0	-
Trade and other payables	(6.4)	(1.7)	(0.5)
Total	**12.8**	**(1.7)**	**(0.4)**

(1) As at June 30, 2019, one U.S. dollar was equivalent to 1.3087 Canadian dollars.
(2) As at June 30, 2019, one PNG Kina was equivalent to 0.2955 Canadian dollars.
(3) As at June 30, 2019, one Australian dollar was equivalent to 0.9177 Canadian dollars.

As at June 30, 2019, U.S. $2.8 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.

IFRS 16 – Leases

The Corporation applied IFRS 16, Leases ("IFRS 16") with an initial application date of January 1, 2019. As a result, the Corporation has changed its accounting policy for lease contracts as detailed in the "Significant Accounting Policies".

The Corporation applied IFRS 16 using the modified retrospective approach. As the standard allows for prospective application, the comparative periods for 2018 have not been restated. For leases entered into prior to January 1, 2019, the Corporation has chosen to measure the right-of-use asset at an amount equal to the lease liability.

a) Definition of a lease

Previously, the Corporation determined at contract inception whether an agreement was or contained a lease under IAS 17 and IFRIC 4. Under IFRS 16, the Corporation assesses whether a contract is or contains a lease based on the definition of a lease as explained in "Significant Accounting Policies".

b) Lessee arrangements

As a lessee, the Corporation previously classified leases as operating or finance leases based on their assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Corporation.

Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for most leases. The Corporation decided to apply recognition exemptions to short-term leases.

(i) Leases classified as operating under IAS 17

- At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability.
- The Corporation used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.
  - Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review;
  - Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term;
  - Excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
  - By class of underlying assets, elected to combine lease and non-lease components as a single lease component; and
  - Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(ii) Leases classified as finance leases under IAS 17

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability as at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

c) Lessor arrangements

The Corporation is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Corporation accounted for its leases in accordance with IFRS 16 from the date of initial application.

d) Impact on financial statements

On transition to IFRS 16, the Corporation recognized the following changes (using its incremental borrowing rate calculated as of January 1, 2019 of 4.45%):

	As reported on December 31, 2018	Adjustments	Balance on Adoption January 1, 2019
Assets			
Right-of-use Asset	-	8.0	8.0
Property and Equipment	184.4	(0.6)	183.8
Liabilities			
Lease Liability	-	(11.2)	(11.2)
Unfavourable Lease Liability	(2.8)	2.8	-
Accounts Payable and Accrued Liabilities	(21.6)	0.5	(21.1)
Finance Lease Obligation	(0.5)	0.5	-
Total	**159.5**	**0.0**	**159.5**

Unfavourable Lease Liability and Finance Lease Obligation are replaced by Lease Obligation with the adoption of IFRS 16. The change in Accounts Payable and Accrued Liabilities relates to the current portion of the onerous and unfavourable lease liabilities.

The following is a reconciliation of the December 31, 2018 commitment note to the Corporation's lease liabilities as at January 1, 2019:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Corporation's consolidated financial statements	14.5
Discount using the incremental borrowing rate at January 1, 2019	11.0
Fixed Payments for Non-lease Components	0.3
Short-term leases	(0.1)
Lease liability as of January 1, 2019	**11.2**

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

There have been no changes in the Corporation's internal controls over financial reporting that occurred during the interim period ended June 30, 2019 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, 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 (loss) to EBITDA and Adjusted EBITDA for the three and six months ended June 30, 2019 and 2018:

$ millions	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net earnings (loss) for the period	**(4.0)**	1.8	**(5.0)**	6.2
Add:				
Interest and finance expense	**0.2**	0.1	**0.4**	0.2
Income taxes	**1.6**	4.6	**1.6**	6.4
Depreciation	**6.8**	6.4	**13.8**	12.8
EBITDA	**4.6**	12.9	**10.8**	25.6
Adjustments to EBITDA:				
Other income	**(0.7)**	-	**(0.7)**	-
Other expenses	**-**	0.6	**-**	0.6
Share-based compensation	**0.1**	0.3	**0.4**	0.9
Gain on sale of assets	**-**	(0.2)	**(0.8)**	(0.2)
Foreign exchange (gain) loss	**-**	0.3	**(0.2)**	0.7
Adjusted EBITDA	**4.0**	13.9	**9.5**	27.6

Adjusted Net Earnings (Loss)

Adjusted net earnings (loss) 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 and six months ended June 30, 2019 and 2018:

$ millions	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net earnings (loss) for the period	**(4.0)**	1.8	**(5.0)**	6.2
Adjustments to net earnings (loss):				
Other expenses	-	0.6	-	0.6
Adjusted net earnings (loss)	**(4.0)**	2.4	**(5.0)**	6.8

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 June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Revenue	**46.6**	47.1	**93.1**	100.8
Less:				
Oilfield services expense	**38.5**	28.7	**75.8**	64.4
Oilfield Services Operating Margin	**8.1**	18.4	**17.3**	36.4
Oilfield Services Operating Margin (%)	**17%**	39%	**19%**	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 (used in) 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 (used in) operations) is a useful supplemental measure as it provides an indication of the funds generated (used in) 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 (used in) 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 (used in) 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 (used in) operations for the three and six months ended June 30:

$ millions	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net cash generated from operating activities	**8.9**	15.9	**8.9**	20.7
Less:				
Net changes in items of non-cash working capital	**(6.8)**	(7.3)	**(2.0)**	(0.2)
Funds provided from operations	**2.1**	8.6	**6.9**	20.5

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	June 30, 2019	December 31, 2018
Current assets	**61.1**	**80.4**
Less:		
Current liabilities	**(23.6)**	**(23.6)**
Working capital	**37.5**	**56.8**

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	**June 30, 2019**	**December 31, 2018**
Cash and cash equivalents	**14.7**	**31.5**
Less:		
Long-term debt	-	-
Net cash	**14.7**	**31.5**

Forward-Looking Statements

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