Management's Discussion and Analysis
For the Years Ended December 31, 2017 and 2016

This Management's Discussion and Analysis ("MD&A") is a review of the results of operations, liquidity and capital resources of High Arctic Energy Services Inc. ("High Arctic" or the "Corporation"). This MD&A is dated March 9, 2018 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2017 and 2016 (the "Financial Statements"). Additional information relating to the Corporation including the Corporation's Annual Information Form ("AIF") for the year ended December 31, 2017, is available under the Corporation's profile on SEDAR at www.sedar.com. 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)	2017	2016	% Change	2017	2016	2015
Revenue	**51.5**	62.3	(17%)	**210.2**	208.0	209.9
EBITDA(1)	**11.8**	18.2	(35%)	**58.3**	80.7	61.0
Adjusted EBITDA(1)(3)	**12.4**	18.3	(32%)	**58.3**	70.8	64.0
Adjusted EBITDA % of revenue	**24%**	29%	(17%)	**28%**	34%	30%
Operating earnings	**5.3**	10.9	(51%)	**31.7**	45.3	45.5
Net earnings	**3.5**	7.5	(53%)	**20.3**	45.1	31.9
per share (basic)(2)	**0.06**	0.14	(57%)	**0.38**	0.85	0.58
per share (diluted)(2)	**0.06**	0.14	(57%)	**0.38**	0.84	0.57
Adjusted net earnings(1)(3)	**3.5**	8.4	(58%)	**20.3**	34.7	31.9
per share (basic)(2)	**0.06**	0.16	(63%)	**0.38**	0.65	0.58
per share (diluted)(2)	**0.06**	0.16	(63%)	**0.38**	0.65	0.57
Funds provided from operations(1)	**9.3**	15.9	(42%)	**45.2**	59.8	52.8
per share (basic)(2)	**0.18**	0.30	(40%)	**0.85**	1.13	0.96
per share (diluted)(2)	**0.17**	0.30	(43%)	**0.84**	1.12	0.94
Dividends	**2.6**	2.6	-	**10.5**	10.5	10.9
per share(2)	**0.05**	0.05	-	**0.2**	0.20	0.20
Capital expenditures	**2.0**	2.1	(5%)	**7.5**	52.4	40.0

	As at December 31		
	2017	2016	% Change
Working Capital(1)	**53.7**	28.6	88%
Total assets	**267.0**	305.1	(12%)
Total non-current financial liabilities	**3.6**	4.2	(14%)
Net cash, end of period(1)	**22.1**	3.3	570%
Shareholders' Equity	**230.8**	230.2	0%
Shares outstanding(2)	**53.3**	53.2	0%

(1) Readers are cautioned that EBITDA, Adjusted EBITDA, Adjusted net earnings, Funds provided from operations, net (debt) 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 per share amounts is determined differently as explained note 16 in the Financial Statements.
(3) Adjusted EBITDA and Adjusted net earnings exclude the impact of the $12.7 million gain on acquisition and $2.3 million in transaction costs ($0.9 million for three months ended December 31) related to the Tervita Acquisition completed in 2016.

Corporate Profile

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

On August 31, 2016, High Arctic acquired Tervita's Production Services Division (the "Tervita Acquisition"). Through this acquisition, High Arctic added a fleet of 85 service rigs (of which 56 are currently registered and marketed) and related support equipment, a surface equipment rentals division and an abandonment and compliance consulting division. As a result of the expansion of the Corporation's service offering following the Tervita Acquisition, High Arctic has organized its business into three business segments: Drilling Services; Production Services; and Ancillary Services.

Drilling Services
The Drilling Services segment consists of High Arctic's drilling services in PNG where the Corporation has operated since 2007. High Arctic currently operates the largest fleet of tier-1 heli-portable drilling rigs in PNG, with two owned rigs and two rigs managed under operating and maintenance contracts for one of the Corporation's customers. The Corporation also provides additional drilling services in PNG as requested by its customers.

Production Services
The Production Services segment consists of High Arctic's well servicing and snubbing operations. These operations are primarily conducted in the Western Canadian Sedimentary Basin ("WCSB") through High Arctic's fleet of well servicing rigs, operating as Concord Well Servicing, and its fleet of stand-alone and rig assist snubbing units. In addition, High Arctic also provides work-over services in PNG with its heli-portable work-over rig.

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

Highlights

The expansion and diversification initiatives undertaken in 2016 has benefited High Arctic in 2017 whereby the growth in the Corporation's Canadian operations has helped to offset lower activity levels in the Corporation's PNG business operations. 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.

Fourth Quarter 2017:

- High Arctic reported Adjusted EBITDA of $12.4 million in the quarter driven from the strength of the Corporation's diversified operations.
- Utilization for High Arctic's registered Concord Well Servicing rigs was 55% in the quarter versus industry utilization of 33% (source: Canadian Association of Oilwell Drilling Contractors "CAODC").
- The Corporation completed mobilization of Rig 405, the fast-moving land rig, into PNG and commenced drilling activities during the quarter. Rig 103 also commenced its drilling assignment in P'nyang during the quarter.
- High Arctic continues to maintain a strong balance sheet with $22.1 million in cash, no amounts outstanding on its debt facilities and $31.6 million in working capital (excluding cash) as at December 31, 2017.
- Consistent with prior quarters, High Arctic declared $2.6 million ($0.05 per share) in dividends during the quarter which represents 28% of funds provided from operations in the quarter.

Full Year 2017:

- Growth in the Corporation's Canadian operations, led by strong utilization for the Corporation's Concord Well Servicing rigs, helped to offset lower revenue from the Corporation's PNG operations resulting in a 1% increase in revenue to $210.2 million for the year.
- For fiscal 2017 the Corporation generated $58.3 million in Adjusted EBITDA in spite of the challenges facing world markets for oil and gas.
- Positive cash flow generation throughout 2017 allowed the Corporation to fully extinguish the debt drawn to fund the Tervita Acquisition as well as return a total of $10.5 million in dividends to shareholders during 2017, representing 23% of funds provided from operations during 2017.

Consolidated Results

	Three Months Ended December 31				Year Ended December 31			
($ millions)	2017	2016	Change	%	2017	2016	Change	%
Revenue	**51.5**	62.3	(10.8)	(17%)	**210.2**	208.0	2.2	1%
EBITDA(1)	**11.8**	18.2	(6.4)	(35%)	**58.3**	80.7	(22.4)	(28%)
Adjusted EBITDA(1)(3)	**12.4**	18.3	(5.9)	(32%)	**58.3**	70.8	(12.5)	(18%)
Adjusted EBITDA % of Revenue	**24%**	**29%**	(5%)	(18%)	**28%**	**34%**	(6%)	(19%)
Net earnings	**3.5**	7.5	(4.0)	(53%)	**20.3**	45.1	(24.8)	(55%)
per share (basic)(2)	0.06	0.14	(0.1)	(57%)	0.38	0.85	(0.5)	(55%)
per share (diluted)(2)	0.06	0.14	(0.1)	(57%)	0.38	0.84	(0.5)	(55%)
Adjusted net earnings(1)(3)	**3.5**	8.4	(4.9)	(58%)	**20.3**	34.7	(14.4)	(41%)
per share (basic)(2)	0.06	0.16	(0.1)	(63%)	0.38	0.65	(0.3)	(42%)
per share (diluted)(2)	0.06	0.16	(0.1)	(63%)	0.38	0.65	(0.3)	(42%)

(1) Readers are cautioned that EBITDA, Adjusted EBITDA and Adjusted net earnings 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 per share amounts is determined differently as explained in note 16 of the Financial Statements.
(3) Adjusted EBITDA and Adjusted net earnings exclude the impact of the $12.7 million gain on acquisition and $2.3 million in transaction costs ($0.9 million for the three months ended December 31) related to the Tervita Acquisition completed in 2016.

Fourth Quarter:

The fourth quarter marked the first quarter of complete comparable results for the Tervita Acquisition, which was completed on August 31, 2016. Increased activity from High Arctic's Concord Well Servicing and other business operations added through the Tervita Acquisition contributed to a 16% increase in the Corporation's Canadian revenue to $23.6 million in the quarter from $20.4 million in the fourth quarter of 2016. This increased revenue contribution helped to mitigate the impact of lower PNG drilling and rentals pricing and activity, resulting in consolidated revenue of $51.5 million in the quarter versus $62.3 million in the fourth quarter of 2016.

The reduction in consolidated revenue, combined with the increased contribution from the Production Services segment, which has a lower operating margin, resulted in Adjusted EBITDA declining to $12.4 million in the quarter from $18.3 million in the fourth quarter of 2016.

Consistent with the reduced Adjusted EBITDA during the quarter, as well as increased depreciation expense associated with the assets acquired in the Tervita Acquisition, Adjusted net earnings declined to $3.5 million ($0.06 per share (basic)) in the quarter versus $8.4 million ($0.16 per share (basic)) in the fourth quarter of 2016.

Fiscal 2017:

The expansion of High Arctic's Production Services segment offset lower PNG drilling and rentals operations, resulting in revenue increasing to $210.2 million for fiscal 2017 versus $208.0 million in 2016. Contribution from the Corporation's PNG drilling operations was lower in 2017 due to decreased drilling activity as well as the expiry of the drilling and related rentals contracts for Rig 115 in June 2017.

While revenue was relatively flat year over year, the increased contribution from lower margin Production Services revenue resulted in a 18% decrease in Adjusted EBITDA to $58.3 million in the year versus $70.8 million in 2016. Fiscal 2016 also benefited from the full year contribution from the contracted revenue for Rig 115, which had a higher margin than the margins generated under the new drilling services contract rates negotiated in 2017 as well as the margins generated in the Corporation's Production Services segment.

Consistent with the fourth quarter, lower Adjusted EBITDA and the full year impact of depreciation expense associated with the assets added through the Tervita Acquisition in 2016 contributed to a decline in Adjusted net earnings to $20.3 million ($0.38 per share (basic)) for 2017 from $34.7 million ($0.65 per share (basic)) in 2016. On a net earnings basis, the Corporation has generated $20.3 million for the year versus $45.1 million in 2016. Fiscal 2016 benefited from a one-time recognition of a $12.7 million gain related to the Tervita Acquisition. This gain represented the difference in appraised value of the net assets acquired in the transaction versus the $42.8 million paid to acquire them. This gain as well as transaction costs associated with the acquisition have been excluded from the Corporation's Adjusted net earnings as these costs are not representative of the earnings associated with the Corporation's ongoing business operations.

Operating Segments

Drilling Services

	Three Months Ended December 31				Year Ended December 31			
($ millions)	**2017**	**2016**	**Change**	**%**	**2017**	**2016**	**Change**	**%**
Revenue	**24.8**	36.8	(12.0)	(33%)	**105.1**	144.6	(39.5)	(27%)
Oilfield services expense [(1)]	**16.7**	23.3	(6.6)	(28%)	**61.9**	89.9	(28.0)	(31%)
Oilfield services operating margin [(1)]	**8.1**	**13.5**	**(5.4)**	**(40%)**	**43.2**	**54.7**	**(11.5)**	**(21%)**
Operating margin (%)	**33%**	37%	(4%)	(11%)	**41%**	38%	3%	8%

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

The Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) which were added to High Arctic's fleet during 2015. These rigs are in addition to Rigs 103 and 104 which High Arctic operates on behalf of a major oil and gas exploration company in PNG. In the fourth quarter of 2017, High Arctic added a fast-moving land based rig, Rig 405, to its PNG drilling fleet to complete a short-term drilling project. Due to the duration of this project, the rig was leased from a non-PNG third-party contractor. This rig is expected to be returned to the third-party contractor upon completion of its drilling assignment.

Fourth Quarter:

Revenue declined 33% in the quarter to $24.8 million from $36.8 million in the fourth quarter of 2016. This decline was due to a combination of lower pricing and drilling activity in the quarter as well as the take-or-pay contract for Rig 115 ending in June 2017. Rig 103 was active during the quarter on its drilling assignment in P'nyang. Rig 405 arrived in PNG in October with mobilization and rig up at its assigned drilling location being completed in December at which time the rig commenced drilling operations. Preventative maintenance activities continued on Rig 104, which is currently stacked in Muruk awaiting its next drilling assignment in the first quarter of 2018. Rig 116 continued to generate standby revenue under its take-or-pay contract.

Operating margin as a percentage of revenue decreased quarter over quarter to 33% versus 37% in the fourth quarter of 2016. This decrease in operating margin percentage is due to the increased proportion of revenue generated from Rigs 103 and 405 during the quarter which incur lease expense charges that are not incurred on High Arctic's owned rigs. Partially offsetting the impact of the reduced margins generated from these non-owned rigs was the standby revenue generated on Rig 116 which incurs minimal operating costs while the rig is on standby. Standby revenue accounted for approximately 26% of Drilling Services revenue in the quarter versus 17% in the comparative quarter in 2016. Excluding the impact of standby revenue, operating margin as a percentage of revenue would have been 13% in the quarter versus 15% in the fourth quarter of 2016. This decline in operating margin, excluding standby revenue contribution, was due to the impact of lower pricing on contract extensions completed in 2017 as well as costs associated with maintenance activities and lower revenue contribution towards fixed operating costs for the Drilling Services division.

Fiscal 2017:

Consistent with the fourth quarter results, lower drilling activity combined with reduced contribution from take-or-pay contracted revenue has contributed to a 27% decline in Drilling Services revenue to $105.1 million for fiscal 2017 versus $144.6 million generated in 2016. The prior period benefited from higher drilling activity for Rigs 103 and 104 as well as the take-or-pay contracted revenue for Rigs 115 and 116 throughout 2016 whereas Rig 115 was under contract for the first six months of 2017 only.

Operating margin as a percentage of revenue increased to 41% for 2017 versus 38% in 2016. As a result of the lower activity for Rigs 103 and 104 relative to fiscal 2016, lower rig lease expense was incurred in 2017 relative to 2016. In addition, the take-or-pay standby revenue for Rig 116 and 115 contributed a greater portion of the Drilling Services revenue in 2017, which also positively impacted margins in 2017. For fiscal 2017, approximately 29% of the Drilling Services revenue was generated by take-or-pay standby revenue versus 17% in 2016.

Production Services

	Three Months Ended December 31				Year Ended December 31			
($ millions)	**2017**	**2016**	**Change**	**%**	**2017**	**2016**	**Change**	**%**
Revenue	**20.9**	17.7	3.2	18%	**81.0**	34.1	46.9	138%
Oilfield services expense (1)	**15.9**	14.9	1.0	7%	**64.8**	26.8	38.0	142%
Oilfield services operating margin (1)	**5.0**	**2.8**	**2.2**	**79%**	**16.2**	**7.3**	**8.9**	**122%**
Operating margin (%)	**24%**	16%	8%	50%	**20%**	21%	(1%)	(5%)
Operating Statistics:								
Service rigs								
Average Fleet (2)	56	63	(7)	(11%)	55	65	(10)	(15%)
Utilization (3)	55%	39%	16%	41%	57%	39%	18%	46%
Operating hours	28,511	22,886	5,625	25%	113,680	30,709	82,971	270%
Revenue per hour	611	601	10	2%	596	602	(6)	(1%)
Snubbing rigs								
Average Fleet (4)	9	8	1	13%	9	8	1	13%
Utilization (3)	28%	46%	(18%)	(39%)	29%	40%	(11%)	(28%)
Operating hours	2,346	3,406	(1,060)	(31%)	9,558	11,820	(2,262)	(19%)

(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 through High Arctic's fleet of well servicing rigs, operating as Concord Well Servicing, and its fleet of stand-alone and rig assist snubbing units. The Concord Well Servicing operations were added to the Production Services segment through the Tervita Acquisition, which closed on August 31, 2016.

The Production Services segment also provides heli-portable workover services in PNG through Rig 102; however, no workover services were provided in PNG during 2016 or 2017 and as such no revenue was generated or costs have been incurred associated with this rig during the periods presented.

Fourth Quarter:

Increased operating hours for High Arctic's Concord Well Servicing rigs resulted in an increase of 18% in revenue to $20.9 million in the quarter versus $17.7 million in the fourth quarter of 2016. Operating hours for the Concord rigs increased 25% to 28,511 hours in the quarter from 22,886 hours in the fourth quarter of 2016, allowing the Concord rigs to generate $17.5 million in revenue during the quarter versus $13.8 million in the fourth quarter of 2016. The increase in hours is due to increased activity in the Concord Well Servicing operating regions as well as the expansion of the Concord operations to Grande Prairie in the first quarter of 2017. Consistent with prior quarters, the Concord rigs achieved above industry utilization of 55% versus the 33% utilization generated by the industry's registered well servicing rigs in the fourth quarter of 2017 (source: CAODC). The increase in activity has provided some opportunity for pricing increases, however, pricing remains competitive. The impact of pricing increases as well as increased exposure to higher rate operating areas allowed average revenue per hour for the Concord rigs to increase to $611 per hour in the quarter from $601 per hour in the fourth quarter of 2016.

The positive contribution from the Concord rigs was partially offset by lower activity experienced in the Production Service's snubbing operations which experienced a 13% decrease in revenue to $3.4 million in the quarter versus the $3.9 million generated in the fourth quarter of 2016. Operating hours for the snubbing rigs in the quarter were 2,346 versus 3,406 hours in the fourth quarter of 2016. Activity was hampered in the quarter due to a shortage of field staff as well as customers curtailing their activity due to low natural gas prices.

The increased activity for the Concord rigs as well as cost savings derived through the Corporation's integration efforts following the Tervita Acquisition allowed operating margin as a percentage of revenue to increase to 24% in the quarter from 16% in the fourth quarter of 2016. In addition, margins for the Concord rig operations in Grande Prairie have normalized following the higher initial start-up costs associated with the division's expansion into Grande Prairie.

Fiscal 2017:

The addition of the Concord operations resulted in a 138% growth in Production Services segment revenue to $81.0 million in fiscal 2017 from $34.1 million in the comparative period in 2016 which only benefited from four months of contribution from the Concord Well Servicing operations post acquisition. The Concord rigs generated 113,680 operating hours for a 57% utilization of the Corporation's CAODC registered service rigs (55 on average) versus the 33% utilization achieved in 2017 for the industry's registered service rig fleet (source: CAODC). Pricing for the Concord rigs averaged $596 per hour in 2017 versus $602 per hour in the last four months of 2016. The comparable period in 2016 benefited from a greater proportion of higher revenue months with additional ancillary revenue contributions such as boiler revenue which does not occur during warmer months which are included in the average revenue for 2017. This resulted in the higher revenue per hour in the shortened 2016 period versus the full fiscal 2017 period.

Consistent with the fourth quarter, activity for the Corporation's snubbing rigs was lower in 2017 versus 2016 resulting in revenue for the snubbing operations declining to $13.3 million in 2017 versus $15.6 million in 2016. This decline in activity was due to the Corporation's core snubbing customers directing their efforts towards completing fracturing programs in the first half of 2017. Snubbing services are typically provided subsequent to fracturing of a well. While snubbing activity increased in the second half of 2017, a shortage of crews impaired the Corporation's ability to service the increased activity level. The Corporation continues to focus on its recruiting efforts to increase crew availability in its Canadian operations.

As a result of the increased revenue, operating margin increased to $16.2 million in 2017 from $7.3 million in 2016. Competitive pricing and higher costs incurred in the first half of 2017 related to non-recurring integration and Grande Prairie start-up costs for the Concord Well Servicing operations negatively impacted margins in the first half of 2017. Margins improved in the second half of 2017 as a result of cost savings generated through the integration efforts undertaken in the first half of 2017. Margins have also normalized for the Grande Prairie operations following its successful start-up. The higher costs in the first half of

2017 caused operating margin as a percentage of revenue to decline to 20% for 2017 versus 21% in 2016. As experienced in the fourth quarter, operating margins as a percentage of revenue have recovered in the second half of 2017.

Ancillary Services

	Three Months Ended December 31				Year Ended December 31			
($ millions)	**2017**	**2016**	**Change**	**%**	**2017**	**2016**	**Change**	**%**
Revenue	**6.6**	8.6	(2.0)	(23%)	**27.4**	30.7	(3.3)	(11%)
Oilfield services expense (1)	**3.3**	2.3	1.0	43%	**11.4**	7.1	4.3	61%
Oilfield services operating margin (1)	**3.3**	**6.3**	**(3.0)**	**(48%)**	**16.0**	**23.6**	**(7.6)**	**(32%)**
Operating margin (%)	**50%**	73%	(23%)	(32%)	**58%**	77%	(19%)	(25%)

(1) Revenue includes inter-segment revenue charged to Production Services and Drilling Services from Ancillary Services division of $0.8 million for the quarter and $3.3 million for fiscal 2017. In 2016, inter-segment revenue was $0.6 million for the quarter and $1.2 million for fiscal 2017.
(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 abandonment and compliance consulting services, acquired in the Tervita Acquisition.

Fourth Quarter:

Increased rentals associated with higher activity for the Corporation's Concord Well Servicing operations partially offset lower equipment rental activity in PNG and lower nitrogen services during the quarter. The lower PNG rental activity was due to lower drilling activity experienced in 2017 versus 2016 as well as the expiry of the equipment rental contracts associated with Rig 115 at the end of the second quarter this year. Nitrogen activity was lower due to reduced activity from core customers in the quarter as lower natural gas pricing in the WCSB curtailed natural gas fracturing activity which is an activity driver for the Corporation's nitrogen operations. Revenue was also negatively impacted from the shutdown of the Corporation's compliance consulting services in the quarter due to declining revenues and increasing losses for this service offering. High Arctic's ClearCompliance inactive well data management software service was unaffected by this shutdown and the Corporation continues to develop and market this software to its customers.

Operating margin as a percentage of revenue declined to 50% in the quarter versus 73% in the fourth quarter of 2016. This decline is associated with the increased contribution from lower margin service lines in the quarter as well as lower rig mat rental volumes in PNG which generate a higher operating margin due to the low operating costs associated with the rental of the mats.

Fiscal 2017:

For fiscal 2017, the increased contribution from the expanded Canadian rentals and compliance operations added through the Tervita Acquisition, as well as increased activity for the Corporation's nitrogen services partially offset lower revenue contribution from the Corporation's PNG rentals. The full year contribution from the Canadian rentals and compliance operations added through the Tervita Acquisition resulted in a 55% increase in revenue for these operations year over year. Nitrogen services benefited from increased well fracturing activity in the WCSB during the year resulting in a 34% increase in revenue year over year. These revenue increases partially offset a 32% decline in PNG rental revenue due to the lower activity in PNG and the expiry of the rental contracts associated with Rigs 115 and 116.

The increased contribution from lower margin services contributed to the decline in operating margin as a percentage of revenue during the year relative to 2016, which benefited from higher margins associated with the Corporation's mat rentals in PNG. Utilization for the Corporation's mats in PNG has declined in 2017, and the Corporation continues to explore additional geographic and industry markets to redeploy inactive mats and other rental equipment in PNG.

General and Administration

	Three Months Ended December 31				Year Ended December 31			
($ millions)	2017	2016	Change	%	2017	2016	Change	%
General and administration	**4.0**	4.3	(0.3)	(7%)	**17.1**	14.8	2.3	16%
Percent of revenue	**8%**	7%	1%	14%	**8%**	7%	1%	14%

General and administrative costs in 2017 increased relative to 2016 due to the additional support infrastructure added following the Tervita Acquisition. As a result of the completion of integration efforts in 2017, general and administrative costs declined to $4.0 million in the fourth quarter of 2017 versus $4.3 million in the fourth quarter of 2016. Due to the decline in revenue during the quarter, general and administrative costs increased to 8% of revenue versus 7% in the fourth quarter of 2016.

Depreciation

Depreciation expense increased to $25.9 million for the year versus $24.4 million in 2016. The increase in depreciation expense is consistent with prior quarters in 2017 as it relates to the additional depreciation expense incurred on the $64.0 million in assets acquired through the Tervita Acquisition completed in the third quarter of 2016.

The Corporation amended its depreciation estimate for non-rig assets in the first quarter of 2017 to straight-line depreciation methodology from declining balance. Management believes this change in depreciation methodology provides a more accurate reflection of the pattern in which the Corporation's asset's future economic benefits are expected to be consumed. Additional details on this change in depreciation methodology can be found in Note 5 of the December 31, 2017 audited consolidated financial statements. Had the Corporation continued to depreciate its assets using declining balance, depreciation expense would have been approximately $27.0 million for fiscal 2017 versus the $25.9 million recorded under the adopted straight-line depreciation methodology.

Share-based Compensation

Share based compensation was $0.5 million in the quarter and $0.7 million for fiscal 2017 versus $0.2 million and $1.1 million in the respective comparative periods in 2016. The increase in share-based compensation expense in the quarter is due to an increase in awards granted in the quarter under the Corporation's equity incentive plans. The decrease in share-based compensation for the year is a result of higher costs associated with options granted in prior years which had been fully amortized prior to 2017 as well as the majority of the options granted in the current year occurring at the end of fiscal 2017, which will be amortized over future periods.

Foreign Exchange Transactions

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

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

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

The U.S. dollar remained strong relative to the Canadian dollar, with an average exchange rate of $1.298 during 2017 (2016 – $1.325). This strong U.S. dollar benefited the Corporation as the majority of the Corporation's PNG business is conducted in U.S. dollars.

As at December 31, 2017, the U.S. dollar exchange rate was 1.255 versus 1.343 as at December 31, 2016. This decline in exchange rate has resulted in a translation loss of $9.5 million recorded in other comprehensive income for the year ended December 31, 2017 ($0.8 million translation gain for the three months ended December 31, 2017).

The fluctuation in exchange rates year to date also resulted in a $0.7 million foreign exchange gain being recorded on various foreign exchange transactions (2016 - $0.5 million). The Corporation does not currently hedge its foreign exchange transactions or exposure.

Interest and Finance Expense

On a year to date basis, the Corporation had an average debt balance outstanding of $12.0 million, resulting in $1.0 million being incurred in interest costs ($0.1 million for the three months ended December 31, 2017). In the third quarter of 2016 High Arctic utilized $40.0 million of its debt facility to fund the closing of the Tervita Acquisition, which was fully repaid during the fourth quarter of 2017 from the Corporation's available cash resources.

Income Taxes

	Three Months Ended December 31			Year Ended December 31		
($ millions)	2017	2016	Change	2017	2016	Change
Net earnings before income taxes	**5.0**	10.7	(5.7)	**31.4**	55.6	(24.2)
Current income tax expense	**2.9**	2.5	0.4	**11.9**	8.9	3.0
Deferred income tax expense	**(1.3)**	0.7	(2.0)	**(0.8)**	1.6	(2.4)
Total income tax expense	**1.6**	3.2	(1.6)	**11.1**	10.5	0.6
Effective tax rate	**32%**	30%		**35%**	19%	

The Corporation's effective tax rate increased to 35% for fiscal 2017 from 19% in 2016. The increased effective tax rate in 2017 is due to a combination of an increase in certain foreign tax rates effective January 1, 2017 as well as withholding taxes related to intercompany dividends declared during the year. The 2016 effective tax rate was also skewed lower due to the Corporation recording additional deferred tax assets through the recognition of previously unrecognized tax pools associated with the Corporation's Canadian tax pools. As a result of the additional taxable income projected from the Tervita Acquisition, the Corporation is able to utilize a greater portion of its existing tax pools resulting in the recognition of the additional tax pools in the third quarter of 2016. A further $1.3 million in deferred tax assets was recorded in the third quarter of 2017 as a result of improved financial performance for the Corporation's Canadian operations, which partially offset the impact of the dividend withholding taxes incurred in 2017.

As at December 31, 2017 High Arctic had $66.7 million in unrecognized tax pools, consisting of $28.8 million in non-capital loss pools and $37.9 million in capital loss pools, which may be utilized to offset future taxable earnings generated by the Corporation's Canadian business operations. These losses expire no earlier than 2025. With the increasing profitability of the Corporation's Canadian business operations, the Corporation will continue to evaluate the appropriateness of recognizing additional deferred tax assets in future reporting periods.

Other Comprehensive Income

As discussed above under Foreign Exchange Transactions, the Corporation recorded a $9.5 million foreign currency translation loss in other comprehensive income year to date due to the strengthening of the Canadian dollar at December 31, 2017 relative to December 31, 2016.

During the year, the Corporation also recognized a $0.6 million loss on its strategic investments. Included in the loss is the recognition of a $1.0 million loss on sale of investments year to date which had an original cost of $2.8 million, for proceeds of $1.8 million.

Liquidity and Capital Resources

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Cash provided by (used in):						
Operating activities	**5.8**	3.9	1.9	**34.3**	51.9	(17.6)
Investing activities	**1.0**	5.8	(4.8)	**(3.2)**	(43.3)	40.1
Financing activities	**(11.6)**	(8.1)	(3.5)	**(34.9)**	3.8	(38.7)
Effect of exchange rate changes	**0.3**	0.9	(0.6)	**(1.4)**	(0.6)	(0.8)
Increase (decrease) in cash and cash equivalents	**(4.5)**	2.5	(7.0)	**(5.2)**	11.8	(17.0)

	As At		
	December 31, 2017	**December 31, 2016**	**Change**
Working capital(1)	53.7	28.6	25.1
Working capital ratio(1)	3.2:1	1.5:1	1.7:1
Net cash(1)	22.1	3.3	18.8
Undrawn availability under debt facilities	45.0	21.0	24.0

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

High Arctic continues to maintain a strong balance sheet with $22.1 million in cash and no debt outstanding on its credit facility as at December 31, 2017. During the fourth quarter of 2017, the Corporation paid an intercompany dividend to repatriate cash from PNG in the amount of $12.9 million less dividend withholding taxes of $1.9 million. The net proceeds received from the intercompany dividend were applied to extinguish the Corporation's outstanding bank debt.

The Bank of PNG policy continues to encourage the use of the local market currency (Kina). Due to High Arctic's requirement to transact with international suppliers and customers, High Arctic has received approval from the Bank of PNG to maintain its U.S. dollar account within the conditions of the Bank of PNG currency regulations. The Corporation has taken steps to increase its use of PNG Kina for local transactions when practical. Included in the Bank of PNG's conditions, is for future PNG drilling contracts to be settled in PNG Kina, unless otherwise approved by the Bank of PNG for the contracts to be settled in U.S. dollars. The Corporation has received such approval for its existing contracts as well as extensions or amendments of its existing contracts with its key customer in PNG. The Corporation will continue to seek Bank of PNG approval for future customer contracts to be settled in U.S. Dollars on a contract by contract basis, however, there is no assurance the Bank of PNG will continue to grant these approvals.

If such approvals are not received, the Corporation's PNG drilling contracts will be settled in PNG Kina which would expose the Corporation to exchange rate fluctuations related to the PNG Kina. In addition, this may delay the Corporation's ability to receive U.S. Dollars which may impact the Corporation's ability to settle U.S. Dollar denominated liabilities and repatriate funds from

PNG on a timely basis. The Corporation also requires the approval from the PNG Internal Revenue Commission ("IRC") to repatriate funds from PNG and make payments to non-resident PNG suppliers and service providers. While delays can be experienced for the IRC approvals, such approvals have been received in the past.

Operating Activities

Consistent with the decrease in Adjusted EBITDA for 2017, funds provided from operations decreased 24% to $45.2 million for 2017 from $59.8 million in 2016. After working capital adjustments, net cash generated from operating activities during 2017 was $34.3 million compared to $51.9 million in 2016. Funds provided from operations for the three months ended December 31, 2017 were $9.3 million (2016 - $15.9 million). The decrease in funds provided from operations for the quarter relates to reduced Adjusted EBITDA combined with dividend withholding tax payments and increased interest expense. After working capital adjustments, net cash generated from operating activities during the fourth quarter was $5.8 million compared to $3.9 million for 2016.

Investing Activities

High Arctic incurred $6.8 million in capital expenditures during the year (2016 - $52.4 million) primarily related to maintenance capital and upgrades to the Corporation's well servicing rigs to enhance the efficiencies and marketability of rigs in the Corporation's various operating areas. Further capital investment and rig enhancements will be made as driven by customer demand and operating requirements. The higher capital expenditures incurred in 2016 primarily related to the assets acquired in the Tervita Acquisition.

During the year, the Corporation generated $1.8 million in cash from the sale of a portion of its short-term investments and $1.0 million in cash from the sale of equipment.

Financing Activities

During the third quarter of 2016 the Corporation drew down $40.0 million on its debt facilities to fund the Tervita Acquisition, which was fully repaid during 2017. Throughout 2017, the Corporation declared a monthly dividend of $0.0165 per share, resulting in year to date total dividends paid to shareholders of $10.5 million.

Credit Facility

In the first quarter of 2017, High Arctic renewed its existing credit facility. As at December 31, 2017, High Arctic's credit facility consisted of a $45.0 million revolving loan facility which matures on August 31, 2019. The facility is renewable with the lender's consent and is secured by a general security agreement over the Corporation's assets.

The available amount under the $45.0 million revolving loan facility is limited to 60% of the net book value of the Canadian fixed assets plus 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement. As at December 31, 2017, no amounts were drawn on the facility and total credit available to draw was $45.0 million.

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

Covenant	Required	December 31, 2017
Funded debt to EBITDA(1)(4)	2.50 : 1 Maximum	0.03 : 1
Current ratio(2)	1.25 : 1 Minimum	3.29 : 1
Fixed charge coverage ratio(3)	1.25 : 1 Minimum	26.19 : 1

(1) Funded debt to EBITDA is defined as the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing 4 quarters.
(2) Current ratio is defined as the ratio of consolidated current assets to consolidated current liabilities (excluding current portion of long-term debt and other debt, if any).
(3) Fixed charge coverage ratio is defined as EBITDA less cash taxes, dividends, distributions and unfunded capital expenditures divided by the total of principal payments on long-term debt and capital leases plus interest, in which principal payments means the total principal amount of the loan outstanding at the end of the quarter amortized over a 7-year period.
(4) EBITDA for the purposes of calculating the covenants, "covenant EBITDA," is defined as net income plus interest expense, current taxes payable, depreciation, amortization, future income tax expense (recovery), stock based compensation less gains from foreign exchange and sale or purchase of assets.

There have been no changes to these financial covenants subsequent to December 31, 2017 and the Corporation remains in compliance with the financial covenants under its credit facility as at December 31, 2017.

Contractual Obligations and Contingencies

High Arctic's contractual financial obligations as at December 31, 2017 are summarized as follows:

($ millions)	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	20.3	-	-	-	20.3
Dividends payable	0.9	-	-	-	0.9
Operating and financial lease commitments	3.5	2.7	2.0	8.7	16.9
Total	**24.7**	**2.7**	**2.0**	**8.7**	**38.1**

Inventory

As part of the Corporation's contractual rig management and operations, the Corporation has been supplied an inventory of spare parts with a total value of $8.3 million by a customer and a third-party supplier for the Corporation's operations in PNG. The inventory is owned by these parties and has not been recorded on the books of High Arctic. At the end of the contracts, the Corporation must return an equivalent amount of inventory to these parties. The Corporation recorded a provision of $0.7 million during 2016 within accrued liabilities to account for a potential shortfall in inventory, which may require cash settlement.

Outstanding Share Data

The Corporation's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares. Directors, officers and certain employees have been granted stock options and incentive shares and units under the Corporation's approved equity compensation plans. As at March 9, 2018, there were 53,347,639 issued and outstanding common shares, including 20,000 shares held in the Executive and Director Share Incentive Plan. In addition, 1,995,800 options were outstanding at an average exercise price of $3.98 as well as 208,421 units under the Corporation's Performance Share Unit Plan and 52,785 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 Normal Course Issuer Bid (the "Bid"). The Bid is valid for one year and expires on September 18, 2018. A total of 3,400 common shares have been purchased and cancelled under the Bid to date, all of which purchases occurred subsequent to year end.

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:

	2017				2016			
$ (millions, except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**51.5**	**42.8**	**51.1**	**64.8**	**62.3**	**47.5**	**43.5**	**54.7**
Adjusted EBITDA(1)	12.4	10.6	14.3	21.0	18.3	15.6	15.1	21.8
Adjusted net earnings(1)	3.5	2.8	5.0	9.0	8.4	8.8	6.3	11.2
per share - basic	0.06	0.06	0.09	0.17	0.16	0.16	0.12	0.21
Net earnings	3.5	2.8	5.0	9.0	7.5	20.1	6.3	11.2
per share - basic	0.06	0.06	0.09	0.17	0.14	0.38	0.12	0.21
Funds provided from operations(1)	9.3	9.8	9.1	17.0	15.9	11.6	13.4	18.9

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

Various factors have affected the quarterly profitability of the Corporation's operations. In response to customer demand in PNG, the Corporation added two new drilling rigs, Rigs 115 and 116, and additional rental equipment to its fleet in 2015 under take-or-pay contract arrangements. These take-or-pay contract arrangements have provided a consistent revenue and earnings base during 2016 and into 2017 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 Corporation's results have also benefited from the Tervita Acquisition which closed on August 31, 2016. This acquisition has contributed to the increased revenue since the fourth quarter of 2016, as well as a gain on acquisition in the third quarter of 2016.

The decline in revenue subsequent to the first quarter of 2017 is due to the expiry of the take or pay contract for Rig 115 in June 2017 as well as the impact of seasonal conditions in the Corporation's Canadian operations whereby frozen ground during the winter months tends to provide an optimal environment for drilling activities and consequently the first quarter is typically the strongest. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. This period is generally referred to as spring break-up. Road bans, which are generally imposed in the spring, restrict the transportation of heavy equipment onto customer locations which reduces demand for services in the Canadian operation and, therefore, the second quarter is generally the weakest quarter of the year for the Corporation's operations in Canada.

Changes in the value of the U.S. dollar as compared to the Canadian dollar have also contributed to fluctuations in revenues, earnings and funds provided from operations. The U.S. Dollar has strengthened relative to the Canadian dollar, peaking in the first quarter of 2016 and subsequently leveling off in the 1.25 to 1.35 range since the second quarter of 2016.

Industry Indicators and Market Trends in PNG

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

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil and natural gas prices Average for the period:								
Brent Crude Oil *(U.S. $/bbl)*	$ 61	$ 52	$ 51	$ 55	$ 51	$ 47	$ 47	$ 35
Japan LNG *(U.S. $/mmbtu)*	$ 7.76	$ 8.33	$ 8.40	$ 7.57	$ 7.15	$ 6.51	$ 6.08	$ 7.70
U.S./Canadian dollar exchange rate	1.27	1.25	1.34	1.32	1.33	1.30	1.29	1.37

The Corporation's PNG activity is based on longer term, U.S. dollar denominated contracts and therefore is less affected over the short term by volatility in oil and gas prices. The U.S./Canadian dollar exchange rate has remained strong subsequent to the second quarter of 2015 which has benefited the Corporation's financial results.

Activity levels for the Corporation's major customers in PNG is less dependent on short term fluctuations in oil and gas prices and instead is based on medium and long-term decisions, particularly with their significant interest in large scale LNG projects both on-stream and in development. Pricing for oil and natural gas production in PNG is generally tied to world prices such as Brent Crude and Asian LNG.

Industry Indicators and Market Trends in Canada

The following table provides information for the last eight quarters to assist with the understanding of the Canadian oilfield services industry and the effect that commodity prices have on industry activity levels.

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil and natural gas prices Average for the period:								
West Texas Intermediate *(U.S. $/bbl)*	$ 55	$ 48	$ 48	$ 52	$ 49	$ 45	$ 46	$ 33
Canadian Light Sweet Oil *(Cdn $/bbl)*	$ 66	$ 57	$ 60	$ 55	$ 61	$ 54	$ 55	$ 41
AECO *(C$/mmbtu)*	$ 1.72	$ 1.61	$ 2.79	$ 2.69	$ 3.11	$ 2.36	$ 1.42	$ 1.83
Other industry indicators								
Total wells drilled in Western Canada(1)	1,852	1,764	1,265	1,554	824	754	1,055	801
Average service rig utilization rates(1)	33%	32%	24%	37%	30%	24%	18%	24%
Average drilling rig utilization rates(1)	32%	30%	18%	39%	26%	16%	7%	22%

(1) Source: CAODC

Decreases in oil and natural gas prices have had a material impact on drilling and well completion activities in Canada during 2016 and 2015. The recent increase in oil prices positively impacted drilling and well completion activities in 2017.

Outlook

Activity for the Corporation's Canadian operations has steadily improved through 2017 with this strength continuing thus far into 2018, with operating hours for High Arctic's Concord rigs up 7% quarter to date in 2018 versus the first quarter of 2017. This positive sentiment is also seen in the drilling sector with the CAODC and PSAC projecting slight increases in drilling activity in 2018 relative to 2017.

In order to meet this increase in activity, High Arctic continues to focus on recruiting efforts to attract and retain sufficient field staff to meet demand for the Corporation's services. Shortages of skilled labor remain a challenge in the industry as the prolonged industry slow down over the last number of years has resulted in a portion of the field workforce gaining employment in other industries or geographical locations. The industry slowdown has also curtailed investment in maintenance capital in the industry which may limit the available industry fleet to meet demand. This reduction in supply is anticipated to help improve the supply/demand balance in the industry.

The tightening of supply has provided the Corporation opportunities to improve pricing for its services in Canada, however, increasing labor and supply costs are partially offsetting the impact of these pricing gains. These pricing gains are largely limited to the Corporation's non-contracted services as the Corporation is limited to provisions within the various customer contracts to adjust pricing for its contracted pricing arrangements with its key customers.

In response to the improving activity levels, High Arctic's board of directors approved a $13.3M capital budget for 2018, of which approximately $8.3 million is anticipated to be invested in the Corporation's Canadian operations on maintenance capital and other enhancements to the Corporation's fleet. The remaining capital budget is anticipated to be invested in the Corporation's international operations. This continued investment in maintaining the Corporation's operating fleet as well as High Arctic's ongoing recruiting efforts are being undertaken in an effort to position High Arctic to be able to meet anticipated increases in customer demand.

In PNG, Rig 405, the fast-moving rig, had been on standby following the temporary shutdown in operations caused by local landowner issues in February. On February 25, 2018, PNG was impacted by a large earthquake and subsequent aftershocks which impacted the area where Rig 405 is operating. As a result of the earthquake and subsequent aftershocks, High Arctic's customer has continued the suspension of activity on the site under Force Majeure. While under Force Majeure, the Corporation will generate its reduced Force Majeure rates which is largely offset by lower operating costs resulting in no material financial impact to the Corporation. While a full assessment has not yet been completed, it appears that the rig and support equipment only sustained minor damage, and the Corporation's customer is completing further site assessments to determine when operations can recommence. The Corporation's other operations remain largely unaffected.

Rig 115 has commenced mobilization to Kimu for a targeted well spud date in April and is anticipated to remain active on its contracted drilling program until the third quarter of 2018. The Corporation is in discussions with another customer on additional work for this rig following completion of its existing contract commitment. Rig 104 commenced mobilization to its next well location in Muruk and is anticipated to spud the well in May. Rig 103 is currently stacking in the forward base in the Southern Highlands where it will await its next assignment and Rig 116 remains under contract in Port Moresby.

High Arctic continues to progress discussions with its key customer in PNG related to the formation of a joint drilling company in PNG or other commercial arrangement, while drilling operations continue under existing operating agreements. The negotiation term under the initial letter of intent has now expired, however, High Arctic and its key customer remain active in progressing discussions relating to the potential formation of a top tier consolidated drilling entity in PNG. High Arctic will continue to provide further updates as these discussions progress.

Financial Risk Management

Credit Risk

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

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

The Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation provides services to two large customers in PNG (2016 – four) which individually accounted for greater than 10% of its consolidated revenues during 2017. Sales to these two customers were approximately $63.2 million and $31.7 million respectively for the year ended 2017 (2016 - $66.3 million and $21.3 million). As at December 31, 2017, these two customers represented 46% and 10%, respectively, of outstanding accounts receivable (December 31, 2016 – two customers represented a total of 32%). 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 are aged as follows:

Days outstanding:	**December 31, 2017**	**December 31, 2016**
Less than 31 days	18.0	30.3
31 to 60 days	13.7	13.9
61 to 90 days	5.7	4.3
Greater than 90 days	3.1	0.7
Allowance for doubtful accounts	(0.1)	(0.1)
Total	**40.4**	**49.1**

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Corporation seeks to manage its financing based on the results of these processes.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market rates of interest, foreign currency exchange rates, commodity prices and other prices.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk as its long-term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates.

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, 2017, a $0.10 change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $1.6 million change in net earnings for the year as a result of changes in foreign exchange.

The Corporation's financial instruments have the following foreign exchange exposure at December 31, 2017:

(millions)	U.S. Dollar (1) (in USD)	PNG Kina (2) (in Kina)	Australian Dollar (3) (in AUD)
Cash and cash equivalents	14.1	0.6	-
Trade and other receivables	19.2	4.4	-
Trade and other payables	(7.6)	(5.3)	(0.5)
Total	**25.7**	**(0.3)**	**(0.5)**

(1) As at December 31, 2017, one U.S. dollar was equivalent to 1.2545 Canadian dollars.
(2) As at December 31, 2017, one PNG Kina was equivalent to 0.3913 Canadian dollars.
(3) As at December 31, 2017, one Australian dollar was equivalent to 0.9801 Canadian dollars.

As at December 31, 2017 U.S. $11.6 million was on deposit with a large international bank in PNG. The Bank of PNG ("BPNG") has provided approval for High Arctic to maintain a U.S. dollar bank account in accordance with the BPNG currency regulations, however, if such approval is withdrawn these funds may be converted into PNG Kina and the Corporation would be required to access the foreign currency market in PNG to meet its foreign currency obligations, thus exposing the Corporation to greater foreign exchange exposure for the Kina. The BPNG currency regulations also limit the amount of foreign currency that companies can maintain in order to meet their forecasted three month cash flow requirements, with excess funds required to be held in Kina.

Commodity price risk
The Corporation is not directly exposed to commodity price risk as it does not have any contracts that are directly based on commodity prices. A change in commodity prices, specifically petroleum and natural gas prices could have an impact on oil and gas production levels and could therefore affect the demand for the Corporation's services. However, given that this is an indirect influence, the financial impact to the Corporation of changing petroleum and natural gas prices cannot be quantified.

Other price risk
Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer or factors affecting all similar financial instruments in the market or a market segment. Exposure to other price risk is primarily in short term investments where changes in quoted prices on investments in equity securities impact the underlying value of the investment.

Critical Accounting Estimates and Judgments

Information on the Corporation's critical accounting policies and estimates can be found in the notes to the annual audited consolidated financial statements for the year ended December 31, 2017.

During the first quarter the Corporation undertook a review of its depreciation methodology for the Corporation's non-rig assets. Based on this review, the Corporation amended its depreciation estimate for non-rig assets in the quarter to straight-line depreciation methodology from declining balance. Management believes this change in depreciation methodology provides a more accurate reflection of the pattern in which the Corporation's asset's future economic benefits are expected to be consumed. Additional details on this change in depreciation methodology can be found in note 5 to the December 31, 2017 consolidated financial statements. Had the Corporation continued to depreciate its assets using declining balance, depreciation expense would have been approximately $27.0 million for the year ending December 31, 2017 versus the $25.9 million recorded under the adopted straight-line depreciation methodology.

Accounting Policies

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

Future Accounting Pronouncements

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

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

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

The new standard is effective for annual periods beginning on or after January 1, 2018, and may be applied either retrospectively or using a modified retrospective approach. The Corporation has evaluated the impact of applying the new standard on the Consolidated Financial Statements and has not identified any material differences from its current revenue recognition practice. The Corporation intends to adopt the standard using the modified retrospective approach recognizing the cumulative impact of adoption in retained earnings as of January 1, 2018. Comparative periods will not be restated.

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, 2017, 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, 2017 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, 2017.

The design of internal controls must also take into account 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, 2017, which are specifically incorporated by reference herein. The AIF is available on SEDAR at www.sedar.com, a copy of which can be obtained on request, without charge, from the Corporation.

Non-IFRS Measures

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

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

Adjusted EBITDA
Adjusted EBITDA is calculated based on EBITDA (as referred to above) prior to the effect of share-based compensation, gains or losses on sales or purchases of assets or investments, business acquisition costs, excess of insurance proceeds over costs

and foreign exchange gains or losses. Management believes the addback for these items provides a more comparable measure of the Corporation's operational financial performance between periods. Adjusted EBITDA as presented is not intended to represent net earnings or other measures of financial performance calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of consolidated net earnings to EBITDA and Adjusted EBITDA for the three months and year ended December 31:

$ millions	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2016
Net earnings for the period	**3.5**	7.5	**20.3**	45.1
Add:				
Interest and finance expense	**0.1**	0.3	**1.0**	0.7
Income taxes	**1.6**	3.2	**11.1**	10.5
Depreciation	**6.6**	7.2	**25.9**	24.4
EBITDA	**11.8**	18.2	**58.3**	80.7
Adjustments to EBITDA:				
Gain on acquisition	**-**	-	**-**	(12.7)
Acquisition costs expensed	**-**	0.9	**-**	2.3
Share-based compensation	**0.5**	0.2	**0.7**	1.1
Gain on sale of assets	**-**	-	**-**	(0.1)
Foreign exchange (gain) loss	**0.1**	(1.0)	**(0.7)**	(0.5)
Adjusted EBITDA	**12.4**	18.3	**58.3**	70.8

Adjusted Net Earnings

Adjusted net earnings is calculated based on net earnings prior to the effect of gains and transaction costs incurred for acquisitions. Management utilizes Adjusted net earnings to present a measure of financial performance that is more comparable between periods. Adjusted net earnings as presented is not intended to represent net earnings or other measures of financial performance calculated in accordance with IFRS. Adjusted net earnings per share and Adjusted net earnings per share – diluted are calculated as Adjusted net earnings divided by the number of weighted average basic and diluted shares outstanding, respectively. The following tables provide a quantitative reconciliation of net earnings to Adjusted net earnings for the three months and year ended December 31:

$ millions	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2016
Net earnings for the period	**3.5**	7.5	**20.3**	45.1
Adjustments to net earnings:				
Gain on acquisition	-	-	-	(12.7)
Acquisition costs expensed	-	0.9	-	2.3
Adjusted net earnings	**3.5**	8.4	**20.3**	34.7

Oilfield Services Operating Margin

Oilfield services operating margin is used by management to analyze overall operating performance. Oilfield services operating margin is not intended to represent operating income nor should it be viewed as an alternative to net earnings or other measures of financial performance calculated in accordance with IFRS. Oilfield services operating margin is calculated as revenue less oilfield services expense.

Oilfield Services Operating Margin %

Oilfield services operating margin % is used by management to analyze overall operating performance. Oilfield services operating margin % is calculated as oilfield services operating margin divided by revenue.

$ millions	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2016
Revenue	**51.5**	62.3	**210.2**	208.0
Less:				
Oilfield services expense	**35.1**	39.7	**134.8**	122.4
Oilfield Services Operating Margin	**16.4**	22.6	**75.4**	85.6
Oilfield Services Operating Margin (%)	**32%**	36%	**36%**	41%

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, 2017	Three Months Ended December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2016
Net cash generated from operating activities	**5.8**	3.9	**34.3**	51.9
Less:				
Net changes in items of non-cash working capital	**3.5**	12.0	**10.9**	7.9
Funds provided from operations	**9.3**	15.9	**45.2**	59.8

Working capital

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

$ millions	As At December 31, 2017	December 31, 2016
Current assets	**77.1**	90.7
Less:		
Current liabilities	**(23.4)**	(62.1)
Working capital	**53.7**	28.6

Net cash

Net cash is used by management to analyze the amount by which cash and cash equivalents exceed the total amount of long-term debt and bank indebtedness or vice versa. The amount, if any, is calculated as cash and cash equivalents less total long-term debt. The following tables provide a quantitative reconciliation of cash and cash equivalents to net cash as follows:

$ millions	As At December 31, 2017	December 31, 2016
Cash and cash equivalents	**22.1**	27.3
Less:		
Long-term debt	**-**	(24.0)
Net cash	**22.1**	3.3

Forward-Looking Statements

This MD&A contains forward-looking statements. When used in this document, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “anticipate”, “believe”, “seek”, “propose”, “estimate”, “expect”, and similar expressions are intended to identify forward-looking statements. Such statements reflect the Corporation’s current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation’s actual results, performance or achievements to vary from those described in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this MD&A include, among others, statements pertaining to the following: general economic and business conditions which will, among other things, impact demand for and market prices for the Corporation’s services; expectations regarding the Corporation’s ability to raise capital and manage its debt obligations; the Corporation’s ability to negotiate and execute agreements to effect the proposed joint company with its customer for business operations in PNG; future acquisitions and growth opportunities; the impact of the Tervita Acquisition on the Corporation’s financial and operational performance and growth activities; commodity prices and the impact that they have on industry activity; estimated capital expenditure programs for fiscal 2018 and subsequent periods; projections of market prices and costs; factors upon which the Corporation will decide whether or not to undertake a specific course of operational action or expansion; the Corporation’s ongoing relationship with major customers; treatment under governmental regulatory regimes and political uncertainty and civil unrest; the Corporation’s ability to maintain a U.S. dollar bank account and conduct its business in U.S. dollars in PNG; and the Corporation’s ability to repatriate excess funds from PNG as approval is received from the Bank of PNG and the PNG Internal Revenue Commission.

With respect to forward-looking statements contained in this MD&A, the Corporation has made assumptions regarding, among other things, its ability to: obtain equity and debt financing on satisfactory terms; market successfully to current and new customers; the general continuance of current or, where applicable assumed industry conditions; activity and pricing; assumptions regarding commodity prices, in particular oil and gas; the Corporation’s primary objectives, and the methods of achieving those objectives; obtain equipment from suppliers; construct property and equipment according to anticipated schedules and budgets; remain competitive in all of its operations; and attract and retain skilled employees.

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

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.