HIGH ARCTIC ENERGY SERVICES INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE MONTHS ENDED
March 31, 2020 and 2019

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This Management’s Discussion and Analysis (“**MD&A**”) is a review of the results of operations, liquidity and capital resources of High Arctic Energy Services Inc. (“**High Arctic**” or the “**Corporation**”). This MD&A is based on information available to May 14, 2020 and should be read in conjunction with the unaudited interim consolidated financial statements and notes for the three months ended March 31, 2020 and 2019 (the “**Financial Statements**”) and the audited consolidated financial statements and notes for the years ended December 31, 2019 and 2018. Additional information relating to the Corporation including the Corporation’s Annual Information Form (“**AIF**”) for the year ended December 31, 2019, is available under the Corporation’s profile on SEDAR at www.sedar.com. All amounts are expressed in millions of Canadian dollars (“**CAD**”), unless otherwise noted, and have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

Readers are cautioned that this MD&A contains certain forward-looking information. Please refer to the “Forward-Looking Statements” section of this MD&A for the Corporation’s discussion on forward looking information including risk factors that could cause actual results to differ materially and the assumptions used underlying the forward-looking information. Definitions of certain non-IFRS financial measures are included on page 17 under the “Non-IFRS Measures” section.

Corporate Profile

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

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

Drilling Services

The Drilling Services segment consists of High Arctic’s drilling services in PNG 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 US through High Arctic’s fleet of well servicing rigs, operating as Concord Well Servicing, and its fleet of stand-alone and rig assist snubbing units. In addition, High Arctic also provides work-over services in PNG with its heli-portable work-over rig. The revenue, expenses and assets related to the Q2-2019 acquisition of the Precision Drilling snubbing business have been reported within the Production Services segment.

Ancillary Services

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

In the following discussion, the three months ended March 31, 2020 may be referred to as the “**Quarter**” or “**Q1-2020**”. The comparative three months ended March 31, 2019 may be referred to as “**Q1-2019**”. References to other quarters may be presented as “**QX-20XX**” with X being the quarter/year to which the commentary relates.

Highlights

The following highlights the Corporation's results for Q1-2020:

- Internal promotion of Mike Maguire to CEO to lead the Corporation's response to the current global crisis.
- Revenue of $39.6 million (Q1-2019 $46.5 million) and adjusted EBITDA of $2.7 million (Q1-2019 $5.5 million) for the Quarter.
- Implementation of programs with a target to reduce annualized cash outflows by $25 million compared to 2019.
- Deliverance of top-tier quality essential services to our core customers during the onset of the crisis to maintain our base business.
- Strict oversight of working capital to manage our cash balances and maintain a strong balance sheet through the crisis.

The Corporation's strategic priorities for 2020 include:

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

Select Comparative Financial Information

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

	For the three months ended March 31	
($ millions, except per share amounts)	**2020**	2019
Revenue	**39.6**	46.5
EBITDA (1)	**5.5**	6.2
Adjusted EBITDA (1)	**2.7**	5.5
Adjusted EBITDA as % of revenue	**7%**	12%
Operating loss	**(4.7)**	(1.8)
Net loss	**(2.2)**	(1.0)
Per share (basic and diluted) (2)	**(0.04)**	(0.02)
Funds provided from operations (1)	**2.0**	4.8
Per share (basic and diluted) (2)	**0.04**	0.10
Dividends	**1.6**	2.5
Per share (basic and diluted) (2)	**0.03**	0.05
Capital expenditures	**1.9**	2.6

	As at	
($ millions, except share amounts)	**March 31, 2020**	December 31, 2019
Working capital (1)	**51.8**	35.8
Cash, end of period	**28.3**	9.3
Total assets	**264.6**	251.8
Long-term debt	**10.0**	-
Total long-term financial liabilities	**18.8**	9.1
Shareholders' equity	**210.4**	205.6
Per share (basic and diluted)	**4.24**	4.11
Common shares outstanding, millions	**49.6**	49.6

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

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

Responding to Recent Global Developments

During Q1-2020, the global coronavirus ("**COVID-19**") reached a pandemic state as declared by the World Health Organization on March 11th. Measures taken by governments around the world to contain the virus significantly reduced demand for crude oil along with other products and services. This caused a significant slowdown in the global economy, market volatility and significant uncertainty in terms of how long these conditions will persist.

At the same time, the cooperation between the Organization of Petroleum Exporting Countries ("**OPEC**") and non-OPEC members, primarily Saudi Arabia and Russia, to manage global crude oil production levels broke down and each party increased their daily crude production, increasing overall global supply. The combination of these events resulted in a crisis and sudden decline in benchmark crude oil prices. Average benchmark crude oil prices in March 2020 declined approximately 50 percent compared with average prices in December 2019.

As customers reduce their capital and other spending, including shut-ins of production to manage through this event, the services needed for drilling and completions and other services to the oil and gas industry have been negatively impacted. The duration of the current commodity price volatility is uncertain.

Recognizing the severe financial impact of these conditions to near-term customer cash flow and the immediate shift from growth to urgent cash preservation and financial flexibility, High Arctic was quick to adjust in anticipation of slowing customer demand. Accordingly, the Corporation has implemented measures expected to reduce certain cash outflows by approximately $25 million over prior-year 2019 levels including:

- A 65% reduction in capital expenditures.
- The suspension of monthly shareholder dividends in March 2020.
- A 30% to 50% workforce reduction to executive, management and support personnel.
- Acceleration of change to globalize processes and reduce fixed infrastructure costs, and
- Change in executive leadership and formation of a Board Executive Committee to provide oversight.

These austerity measures were carefully considered to reinforce High Arctic's solid base of business in the markets we compete in while preserving a strong financial position and quality service offerings.

To close out the 2020 first quarter we are well positioned to persevere through the uncertainty with capacity ready for deployment when markets recover and restore activity levels. Highlights include:

- Resilient focus on the safety and well being of our people through mature health, safety and environment policies including procedures to safeguard against COVID-19.
- Core customer base in Canada and a term contract through Q3 2021 for well servicing with a large investment grade customer in western Canada.
- Standing operations in PNG since 2012 and a term contract through Q3-2021 for heli-portable drilling services with a leading customer in PNG.
- Regional workforce strength and equipment poised for quick activation.
- A dominant market share and niche service offering positioned for liquified natural gas development with heli-portable drilling services in PNG and snubbing services in western Canada, and
- Liquidity of $63 million with cash of $28 million combined with $35 million in Bank Facility borrowing capacity.

High Arctic's near-term outlook will continue to be impacted until such time as the COVID-19 pandemic stabilizes, world economies begin to open up, and travel restrictions are removed. Further, the impact of future impairment charges, increased risk of collectability of accounts receivable and measurement uncertainty will continue to be relevant considerations in future periods if conditions persist or worsen. The Corporation's flexible operating plan will provide options to prudently manage operations and preserve financial flexibility. During Q1-2020, the Corporation responded immediately to reduce operating expenses in line with revenue generating activities, and further reduced indirect support and general and administrative personnel world-wide, providing significant annualized cost savings. Further, High Arctic undertook an extensive cash re-budgeting process, in response to higher risks and uncertainty in the current environment. The Corporation suspended its monthly dividend in March 2020 for an indefinite term to preserve cash resources.

High Arctic reached out to its customers to ensure that close working relations are continued as we all manage through this downturn. Our focus on high quality service and customer service differentiation continues to be an absolute imperative. These attributes have been, and continue to be, key principles for High Arctic throughout the energy industry economic cycle.

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

Although details are still forthcoming, the Canadian federal government's $1.7 billion well abandonment and site reclamation stimulus may provide meaningful opportunity for High Arctic to participate in the resulting work programs, through our Production Services segment.

First Quarter 2020:

- High Arctic reported revenue of $39.6 million, incurred a net loss of $2.2 million and realized Adjusted EBITDA of $2.7 million during Q1-2020. This compares to Q1-2019, with revenue of $46.5 million, a net loss of $1.0 million and Adjusted EBITDA of $5.5 million. Changes were mainly due to $6.9 million of reduced revenue, attributable to reduced drilling services activity, with revenue reduction of $4.9 million over Q1-2019, together with $0.8 million of restructuring costs.
- Q1-2020 dividends amounted to $1.6 million ($0.03 per share), compared to $2.5 million in Q1-2019 ($0.05 per share).
- Dividends were suspended in March 2020, which amount to approximately $0.8 million per month.
- Cash increased $19.0 million as compared to a decrease of $8.5 million in Q1-2019.
- Late in Q1-2020, the Corporation drew $10 million on its available $45 million loan facility.
- Utilization for High Arctic's 50 registered Concord Well Servicing rigs was 58% in the Quarter versus industry utilization of 36% (source: Canadian Association of Oilwell Drilling Contractors "**CAODC**"), and
- High Arctic did not repurchase any shares during the Quarter.

Operating Segments and Results

($ millions, unless otherwise noted)	**Three months ended March 31** **2020**	2019
Revenue:		
Drilling Services	**$ 13.9**	$ 18.8
Production Services	**21.8**	22.8
Ancillary Services	**4.5**	5.7
Inter-segment eliminations	**(0.6)**	(0.8)
	$ 39.6	$ 46.5
Oilfield Service Operating Margin (1)		
Drilling Services	**$ 3.2**	$ 4.2
Production Services	**1.5**	2.1
Ancillary Services	**2.6**	2.9
	$ 7.3	$ 9.2
Oilfield Service Operating Margin Percentage (1)		
Drilling Services	**23%**	22%
Production Services	**7%**	9%
Ancillary Services	**58%**	51%
	18%	20%

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

First Quarter

- Operating margins decreased by 21% comparing Q1-2020 to Q1-2019, with reductions of $1.0 million in Drilling Services, $0.6 million in Production Services and $0.3 million in Ancillary Services.
- Oilfield service related restructuring costs amounting to $0.3 million during the current Quarter also reduced overall margins.

Drilling Services Segment

($ millions, unless otherwise noted)	Three months ended March 31 2020	2019
Revenue	**$ 13.9**	$ 18.8
Oilfield services expense	**10.7**	14.6
Oilfield services operating margin (1)	**$ 3.2**	$ 4.2
Operating margin (%)	**23%**	22%

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

The Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) and operates two rigs (Rigs 103 and 104) on behalf of a major oil and gas exploration company in PNG. During Q1-2020, Drilling Services revenue decreased 26% to $13.9 million from $18.8 million in Q1-2019 due to lower drilling activity. In the first quarter of 2020, High Arctic operated Rig 103 continuously, whereas during Q1-2019, both Rig 103 and 104 were operating. Upon customer notification and during Q1-2020, Rig 103 was demobilized and prepared to be cold stacked, which was one quarter earlier than had been planned, mainly as a result of implications associated with COVID-19. Rig 104, Rig 115 and Rig 116 remained cold stacked throughout the Quarter in a state ready for reactivation.

Production Services Segment

($ millions, unless otherwise noted)	Three months ended March 31 2020	2019
Revenue	**$ 21.8**	$ 22.8
Oilfield services expense	**20.3**	20.7
Oilfield services operating margin (1)	**$ 1.5**	$ 2.1
Operating margin (%)	**7%**	9%

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

Operating Statistics - Canada	Three months ended March 31 2020	2019
Service rigs:		
Average fleet (2)	**51**	56
Utilization (3)	**58%**	54%
Operating hours	**26,899**	27,410
Revenue per hour ($)	**623**	627
Snubbing rigs:		
Average fleet (4)	**9**	16
Utilization (3)	**31%**	20%
Operating hours	**2,555**	2,925

Operating Statistics - US	Three months ended March 31 2020	2019
Service rigs:		
Average fleet (2)	**3**	1
Utilization (3)	**41%**	56%
Operating hours	**1,114**	503
Revenue per hour ($)	**934**	846
Snubbing rigs:		
Average fleet (4)	**6**	4
Utilization (3)	**9%**	30%
Operating hours	**467**	1,081

(2) Average service rig fleet represents the average number of rigs registered with the CAODC during the period.
(3) Utilization is calculated on a 10-hour day using the number of rigs registered with the CAODC during the period.
(4) Average snubbing fleet represents the average number of rigs marketed during the period.

High Arctic's well servicing and snubbing operations are provided through its Production Services segment. These operations are primarily conducted in Canada in the WCSB and US through High Arctic's fleet of well servicing rigs, operating as Concord Well Servicing, and its fleet of stand-alone and rig assist snubbing units. During Q1-2020, overall service rig operating hours of 28,013 stayed relatively flat compared to Q1-2019 at 27,913.

Pricing continues to remain competitive, although average revenue per hour for the Concord service rigs in Canada decreased by less than 1% to $623 per hour in the Quarter from $627 per hour in Q1-2019. Service rig hours in Canada decreased from 27,410 in Q1-2019 to 26,899 in Q1-2020, largely due to the shortened workdays from 12 hour days to 10 hour days for one of our customers in Cold Lake. A significant increase of over 1,100 hours in Grande Prairie compared to Q1-2019 partially offset the Cold Lake decrease. Notwithstanding the competitive market and consistent with prior quarters, the Concord rigs achieved above Canadian industry utilization at 58% versus the 36% utilization generated by the industry's registered well servicing rigs in the Quarter (source: CAODC).

Offsetting the decreases in service rig hours in Canada were US hours which more than doubled from 503 in Q1-2019 to 1,114 in Q1-2020. Further, Service rig revenue per hour in the US increased from $846/hour in Q1-2019 to $934/hr in Q1-2020.

Activity for the Corporation's snubbing operations continues to be hampered over recent quarters due to prolonged low natural gas prices which has curtailed natural gas well completions for the Corporation's customers. Both Canadian and US snubbing well service operating hours decreased in Q1-2020 by 13% and 57%, respectively, as customers deferred discretionary spending on well completions and technically complex well workovers.

Operating margin percentage for the Quarter decreased from 9% to 7% compared to Q1-2019.

Ancillary Services Segment

($ millions, unless otherwise noted)	**Three months ended March 31 2020**	2019
Revenue	**$ 4.5**	$ 5.7
Oilfield services expense	**1.9**	2.8
Oilfield services operating margin (1)	**$ 2.6**	$ 2.9
Operating margin (%)	**58%**	51%

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

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

During Q1-2020, a down turn in well site associated rentals in PNG coupled with a contraction in the worksite matting market reduced overall revenue, partially offset by high margin adhoc oilfield rental activity.

General and Administrative ("G&A")

($ millions, unless otherwise noted)	**Three months ended March 31 2020**	2019
G&A	**$ 4.6**	$ 3.7
% of revenue	**12%**	8%

G&A costs increased by 24% as compared to Q1-2019. This increase was largely impacted by restructuring costs associated with severance amounting to $0.5 million as well as increased bad debt expense of $0.2 million that were not incurred in Q1-2019. Further, Q1-2020 included $0.2 million in legal costs that were incurred in pursuit of now discontinued acquisition opportunities as well as corporate matters, which would not have been incurred in Q1-2019 and which will be curtailed in the near term. As a result, G&A costs as a percentage of revenue during Q1-2019 were 12% compared to 8% in Q1-2019. High Arctic is committed to ensuring that G&A costs are managed and balanced within the overall strategic plan for the Corporation.

Depreciation

Depreciation expense on property and equipment and right-of-use assets totaled $7.3 million in Q1-2020, compared to $7.0 million in Q1-2019.

Share-based Compensation

Share-based compensation expense is the result of the charge to income relating to option or unit plans which contemplate the issuance of common shares upon vesting. The methodology used typically front end loads the expense in the early portion of the expense realization. During Q1-2020, share-based compensation amounted to $0.1 million (Q1-2019 - $0.3 million).

Foreign Exchange Transactions

The Corporation has exposure to US dollar ("**USD**") fluctuations and other currencies such as the PNG kina ("**PGK**") 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 subsidiaries with functional currencies other than CAD, into CAD for financial reporting presentation purposes.

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

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

The average CAD to USD exchange rate for the Quarter was $1.34 vs $1.32 during Q1-2019. As at March 31, 2020, the CAD exchange rate weakened significantly, late in the quarter, against the USD with the CAD to USD exchange rate at $1.42 vs $1.30 as at December 31, 2019.

The impact of exchange rates for the Quarter resulted collectively in a $0.1 million foreign exchange gain (Q1-2019 - $0.2 million gain) being recorded on various foreign currency denominated transactions and on the translation of monetary assets and liabilities.

The fluctuation of USD vs CAD also resulted in a translation gain of $8.5 million (Q1-2019 – $3 million loss) for the Quarter associated with the translation of subsidiaries with functional currencies that are not CAD, and was recorded in other comprehensive income (loss) for the Quarter.

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

Interest and Finance Expense

($ millions)	**Three months ended March 31 2020**	2019
Interest – bank loan	**$ 0.1**	$ nil
Finance expense – lease liabilities	**0.1**	0.1
Other interest/finance expense	**0.1**	0.1
Total	**$ 0.3**	$ 0.2

During the Quarter, $10 million of the available $45 million loan facility was drawn late in the quarter, resulting in interest expense on the bank loan of $0.1 million. Other interest amounted to $0.1 million for the Quarter (Q1-2019 - $0.1 million).

Finance expense on lease liabilities associated with the time value of money of $0.1 million was recorded during the Quarter (Q1-2019 - $0.1 million), as the liability is initially recorded at its present value.

Income Taxes

($ millions, unless otherwise noted)	Three months ended March 31 **2020**	2019
Net loss before income taxes	**$ (2.1)**	$ (1.0)
Current income tax expense	**0.4**	0.5
Deferred income tax expense (recovery)	**(0.3)**	(0.5)
Total income tax expense	**0.1**	-
Effective tax rate	**(5%)**	0%

The Corporation's effective tax rate was (5%) for the Quarter (Q1-2019 – 0%).

Other Comprehensive Income (Loss)

As discussed above under Foreign Exchange Transactions, the Corporation recorded a $8.5 million foreign currency translation gain associated with subsidiaries with functional currencies other than CAD, in other comprehensive income (loss) for the Quarter. This occurred due to the weakening of the CAD compared to the USD at March 31, 2020 relative to December 31, 2019.

Liquidity and Capital Resources

($ millions)	Three months ended March 31 **2020**	2019
Cash provided by (used in):		
Operating activities	**$ 8.6**	$ -
Investing activities	**1.9**	(1.4)
Financing activities	**7.1**	(5.8)
Effect of exchange rate changes on cash	**1.4**	(1.3)
Increase (decrease) in cash	**$ 19.0**	$ (8.5)

($ millions, unless otherwise noted)	As at March 31 **2020**	December 31, 2019
Working capital [(1)]	**$ 51.8**	$ 35.8
Working capital ratio [(1)]	**3.1 : 1**	2.3 : 1
Net cash [(1)]	**18.3**	9.3
Undrawn availability under debt facilities	**35.0**	45.0

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

The Bank of PNG continues to encourage the use of the local market currency (kina or "**PGK**"). Due to High Arctic's requirement to transact with international suppliers and customers, High Arctic has received approval from the Bank of PNG to maintain its USD account within the conditions of the Bank of PNG currency regulations. The Corporation continues to use PGK for local transactions when practical. Included in the Bank of PNG's conditions is for PNG drilling contracts to be settled in PGK, unless otherwise approved by the Bank of PNG for the contracts to be settled in USD. The Corporation has received such approval for its existing contracts with its key customers in PNG. The Corporation will continue to seek Bank of PNG approval for future customer contracts to be settled in USD on a contract by contract basis, however, there is no assurance the Bank of PNG will continue to grant these approvals.

If such approvals are not received in future, the Corporation's PNG drilling contracts will be settled in PGK which would expose the Corporation to exchange rate fluctuations related to the PGK. In addition, this may delay the Corporation's ability to receive USD which may impact the Corporation's ability to settle USD denominated liabilities and repatriate funds from PNG on a timely basis. The Corporation also requires the approval from the PNG Internal Revenue Commission ("**IRC**") to repatriate funds from PNG and make payments to non-resident PNG suppliers and service providers. While delays can be experienced for the IRC approvals, such approvals have been received in the past.

Operating Activities

Cash provided from operations of $8.6 million (Q1-2019 - $ nil) for the Quarter was due to $2.0 million of funds provided from operations and $6.6 million due to working capital changes, mainly the reduction in accounts receivable during the quarter.

Investing Activities

During the Quarter, the Corporation's cash from investing activities amounted to $1.9 million (Q1-2019 – use of $1.4 million). Capital expenditures during the Quarter of $1.9 million (Q1-2019 - $2.6 million) were offset by proceeds on disposal of $4.9 million (Q1-2019 – $1.4 million). The balance of the change related to changes in associated accounts payable for capital items.

Financing Activities

During the Quarter, the Corporation drew $10 million of its $45 million available long-term debt facility. High Arctic distributed $1.6 million in dividends to its shareholders, down $0.9 million from $2.5 million in Q1-2019 as a result of the suspension of dividends in March 2020.

Further, no common share buy-backs were completed in the Quarter, compared to $2.9 million that were purchased and cancelled in Q1-2019 under the Normal Course Issuer Bid ("**NCIB**"). Dividends payable decreased by $0.8 million in the Quarter, accounting for the change in non-cash working capital.

Credit Facility

As noted above, the Corporation has drawn $10 million of the $45 million revolving loan facility available, which matures on August 31, 2021. The facility is renewable with the lender's consent and is secured by a general security agreement over the Corporation's assets.

The available amount under the $45 million revolving loan facility is limited to 60% of the net book value of the Canadian fixed assets plus 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement.

The Corporation's loan facility is subject to two financial covenants which are reported to the lender on a quarterly basis. As at March 31, 2020, the Corporation remains in compliance with these two financial covenants under the credit facility.

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

The covenant calculations at March 31, 2020 are:

Covenant	Required	**As at March 31, 2020**
Funded debt to covenant EBITDA [(1)(2)]	3.0 : 1 Maximum	**0.65 : 1**
Covenant EBITDA to Interest expense [(2)]	3.0 : 1 Minimum	**16.1 : 1**

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

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

There have been no changes to these financial covenants subsequent to March 31, 2020.

Commitments and Contingencies

As part of the Corporation's contractual rig management and operations, the Corporation has been supplied an inventory of spare parts with a total value of $8.1 million (December 31, 2019 - $7.4 million) by a customer for the Corporation's operations in PNG. The inventory is owned by this party and has not been recorded on the books of High Arctic. At the end of the contract, the Corporation must return an equivalent amount of inventory to the customer.

Outstanding Share Data

The Corporation's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares. Directors, officers and certain employees have been granted stock options and incentive shares and units under the Corporation's approved equity compensation plans.

As at March 31, 2020, there were 49,623,432 issued and outstanding common shares. In addition, 573,500 stock options were outstanding at an average exercise price of $3.77 as well as 374,008 units under the Corporation's Performance Share Unit Plan and 167,272 units under the Deferred Share Unit plan.

No preferred shares have been issued by the Corporation and therefore none are outstanding at March 31, 2020.

On November 28, 2019 the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,552,229 common shares, representing approximately 10 percent of the Corporation's public float, under a NCIB. The NCIB is valid for one year and will expire on December 1, 2020. No common shares have been purchased and cancelled under this NCIB up to and including May 14, 2020. In addition, no common or preferred shares were issued subsequent to March 31, 2020 up to and including May 14, 2020.

Quarterly Financial Review

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

	2020	2019				2018		
($ millions, except per share)	**Q1**	**Q4**	**Q3**	**Q2 (3)**	**Q1**	**Q4 (2)**	**Q3 (2)**	**Q2**
Revenue	39.6	42.8	49.6	46.6	46.5	47.8	54.7	47.1
Adjusted EBITDA (1)	2.7	3.6	6.3	4.0	5.5	6.6	17.4	13.9
Net earnings (loss)	(2.2)	(2.7)	(1.1)	(4.0)	(1.0)	(2.3)	7.5	1.8
Per share - basic	*(0.04)*	*(0.06)*	*(0.02)*	*(0.08)*	*(0.02)*	*(0.04)*	*0.14*	*0.04*
Adjusted net earnings (loss)(1)(2)(3)	(2.2)	(2.7)	(1.5)	(4.0)	(1.0)	(2.3)	7.7	2.4
Per share - basic	*(0.04)*	*(0.05)*	*(0.02)*	*(0.08)*	*(0.02)*	*(0.4)*	*0.15*	*0.05*
Funds provided from operations (1)	2.0	3.1	5.3	2.1	4.8	2.0	14.3	8.6

(1) See "Non-IFRS Measures" on page 17
(2) Adjusted net earnings (loss) in 2018 excludes $0.6 million and $0.2 million, respectively, of expenses incurred related to the closing of the Corporation's Blackfalds facility and transaction costs related to the Powerstroke Acquisition.
(3) Adjusted net earnings (loss) in Q2 2019 excludes the impact of $0.7 million of income recognized related to the write down of the contingent liability associated with the Powerstroke acquisition in 2018.

Various factors have affected the quarterly profitability of the Corporation's operations. During late Q1-2020, High Arctic began to experience the negative impact caused by the COVID-19 pandemic including restructuring that has been undertaken as the Corporation manages reduced revenue and operating cash flow. The Corporation's outlook has been significantly impacted by the global over-supply of oil that has been created by both OPEC's decisions on supply and price and the unprecedented decrease in global crude oil demand measures taken by governments around the world to control the recent pandemic.

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

The take-or-pay contract for Rig 116 expired on November 2, 2018 resulting in reduced revenue and EBITDA in 2019. The Corporation continues to promote both Rig 116 and Rig 115 for service in PNG and abroad. The Corporation's results have also grown with the Powerstroke and Saddle Well Services acquisitions which closed in 2018 and most recently the acquisition of Precision Drilling's snubbing business in April 2019.

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

Industry Indicators and Market Trends in PNG

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

	2020	2019				2018		
($)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oil and natural gas prices								
(Avg for the period):								
Brent Crude Oil (USD $/bbl) (1)	51	63	62	63	64	68	76	75
Japan LNG (USD $/mmbtu) (2)	9.91	10.04	10.62	9.91	11.87	11.69	10.73	10.26
USD/CAD exchange rate	1.34	1.32	1.32	1.31	1.34	1.32	1.31	1.29

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

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

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

Industry Indicators and Market Trends in Canada

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

	2020	2019				2018		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oil and natural gas prices								
($ Avg for the period):								
West Texas Intermediate ("WTI") (USD $/bbl) (1)	46	57	56	55	55	59	69	68
West Canada Select ("WCS") (CAD $/bbl)(1)	34	54	58	55	57	37	62	63
Canadian Light Sweet Oil ("CLS") (CAD $/bbl) (1)	52	67	69	64	67	48	76	78
AECO (CAD $/mmbtu) (1)	2.03	2.48	1.00	0.61	2.62	1.62	1.28	1.20
Other industry indicators:								
Total wells drilled in W. Canada(2)	*1,179*	1,175	1,407	778	1,546	1,380	1,528	1,268
Avg service rig utilization rates(2)	*36%*	33%	55%	35%	48%	37%	41%	30%
Avg drilling rig utilization rates (2)	31%	23%	23%	13%	29%	28%	30%	17%

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

In Q1-2020, WTI, WCS and CLS prices have all been impacted by the COVID-19 pandemic and its impact to over-supply, lack of storage facilities, softening demand and as a result, downward pressure on pricing, which temporarily moved into negative territory subsequent to March 31, 2020.

Decreases in oil and natural gas prices, have had a material impact on drilling and well completion activities in Canada since 2015, given the lack of take away pipeline capacity prior to the COVID-19 pandemic and continue to collectively curtail industry activity levels relative to historical industry activity levels.

Outlook

While the outlook for the global oil business is challenging, High Arctic is taking measures during this period of uncertainty to provide financial flexibility and reinforce our solid base of business. Our people continue to focus on quality as measured by safety performance excellence and long-term customer relationships. Our diversification with operations in Canada, an emerging presence in the US and lead service provider status in PNG has proven beneficial to mitigate currency and commodity risk. Initiatives taken to reduce cash outflows by $25 million over 2019 levels serves to preserve financial strength and cope through this unprecedented COVID-19 economic downturn.

In Papua New Guinea, active well site work ceased quickly in March 2020 as response by our customers to the significant travel bans and declaration of the PNG Government of a State of Emergency. While the Corporations Drilling Services are suspended, we continue to provide skilled personnel and rental services to assist our customers with services to maintain the production of oil and LNG essential to the people of Papua New Guinea and their foreign customers. While the government of PNG was quick to respond to the COVID-19 crisis and has announced some relief for displaced workers, the Corporation does not expect any stimulus announcements to support the energy sector. A return to well site activity levels of recent years will be predicated on stabilised commodity prices, lifting of State of Emergency, removal of travel restrictions and the signing of an agreement with the State for the P'nyang gas development.

Given the outbreak of the COVID-19 virus and the recent government mandated decisions that have been made as a result, the impact will be substantial, at least in the immediate term. Furthermore, in the absence of information regarding when or how government orders to return to any type of normal operating pattern will be made, we cannot offer any meaningful guidance or outlook to our shareholders at this time. Economic activity and demand will be determined by the actions and policies of government as the pandemic and its' impact unfolds in the coming months.

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

It is clear the next few months and potentially quarters will be difficult. High Arctic believes we are positioned to manage through these challenging times given our strong relationships with our customers, our ability to capitalize upon Canadian government abandonment programs, and our continued focus on excellence in our service offering. The health of our balance sheet, our strong working capital position and the skill of our management team provide us the ability to weather the economic slowdown until activity can be restored. Business combinations and acquisitions will be reviewed to the extent they strengthen our service base but will not be our primary focus over the short-term.

Financial Risk Management

Financial and other risks

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

Market and other related risk

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

Pandemic risk is the risk that operations and/or administration are forced to run at less than full capacity due to an absence or reduction of members of the workforce, either through forced closures by government, by internally imposed rotational schedules and/or quarantine or illness of the workforce. Such restrictions could significantly impact the ability for the Corporation to operate, and therefore impact financial results.

High Arctic manages this risk by staying aware of changes associated with the pandemic, including government regulations which change frequently as the pandemic progresses. The Corporation then determines how to manage High Arctic's workforce to ensure compliance with law, and safety of our employees and consultants, while completing the services that customers require during such an unusual circumstance.

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.

The Corporation has available to it an Interest rate swap, which is included within its existing facility agreement. The interest rate swap allows High Arctic to fix the rate of interest payable up to a maximum of $20 million of the loaned amount. No swaps have been undertaken by the Corporation at March 31, 2020.

Foreign currency risk and PNG foreign currency restrictions

Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results. A majority of the Corporation's international revenue and expenses are transacted in USD and the Corporation does not actively engage in foreign currency hedging. For the three-month period ended March 31, 2020, a 0.10 basis point change in the value of the Canadian dollar relative to the USD would have resulted in a change in net earnings (loss) amounting to $0.1 million as a result of changes in foreign exchange.

The Corporation's ability to repatriate funds from PNG is controlled by the PNG government through their central bank. There are currently monetary and currency exchange control measures in PNG that can impact the ability to repatriate funds, as well as establish requirements to transact in the local PNG currency (kina or PGK). As at March 31, 2020 USD $3.8 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 USD bank account in accordance with the BPNG currency regulations. The Corporation has received approval from the BPNG for its existing contracts with its key customers in PNG to be denominated and settled in USD. However, if such approval is withdrawn in the future, these funds may be converted into PGK and the Corporation would be required to access the foreign currency market in PNG to meet its foreign currency obligations, thus exposing the Corporation to greater foreign exchange exposure for the PGK.

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

The Corporation's financial instruments have the following foreign exchange exposure at March 31, 2020:

($ millions)	USD (1)	PGK (2)	Australian Dollars ("**AUD**") (3)
Cash	$ 13.1	$ 1.4	$ 0.3
Accounts receivable	9.6	3.3	-
Accounts payable and accrued liabilities	(7.9)	(6.4)	(0.2)
Total	$ 14.8	$ (1.7)	$ 0.1

(1) As at March 31, 2020, one USD was equivalent to 1.42 CAD.
(2) As at March 31, 2020, one PGK was equivalent to 0.41 CAD.
(3) As at March 31, 2020, one AUD was equivalent to 0.87 CAD.

Commodity price risk

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

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

Credit Risk

Credit risk is the risk of a financial loss occurring as a result of a default by a counter party on its obligation to the Corporation. The Corporation's financial instruments that are exposed to credit risk consist primarily of accounts receivable and cash balances held in banks.

The Corporation mitigates credit risk by regularly monitoring its accounts receivable position and depositing cash in properly capitalized banks. The Corporation also institutes credit reviews prior to commencement of contractual arrangements.

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

The Corporation views the credit risks on these amounts as consistent with the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation provides services to two large multinational/regional customers (2019 – two) which individually accounted for greater than 10% of its consolidated revenues during the three-month period ended March 31, 2020. Sales to these two customers were approximately $11.8 million and $5.7 million for the three-month period ended March 31, 2020 (Q1-2019 - $23.5 million and $6.3 million).

As at March 31, 2020, these two customers represented 42% of outstanding accounts receivable (December 31, 2019 – two customers represented a total of 41% of accounts receivable). Management has assessed the two customers as creditworthy and the Corporation has had no history of collection issues with these customers.

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

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

($ millions)	**As at March 31 2020**	December 31 2019
Days outstanding:		
Less than 31 days	**17.4**	14.6
31 to 60 days	**10.4**	16.0
61 to 90 days	**2.0**	3.8
Greater than 90 days	**3.7**	5.6
Allowance for doubtful accounts	**(0.4)**	(0.2)
Total	**33.1**	39.8

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

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

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

Further, the Corporation currently has $35 million in remaining availability under its' credit facility to enable execution of strategic direction.

Critical Accounting Judgements and Estimates

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

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

The pandemic adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil and natural gas, impacting High Arctic's customers and High Arctic's business. Crude oil prices have also been severely impacted by increased global supply due to disagreements over production restrictions between the OPEC and non-OPEC members, primarily Saudi Arabia and Russia. As a result of declining commodity prices and financial markets, the Corporations' share price and market capitalization significantly declined from December 31, 2019.

The full extent of the impact of COVID-19 on the Corporation's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus. These uncertainties may persist beyond when it is determined how to contain the virus or treat its impact.

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

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

At March 31, 2020, High Arctic determined that indicators of impairment existed within three of the Corporation's CGUs. These indicators arose due to the unprecedented worldwide impact on businesses as a result of the COVID-19 pandemic, together with the simultaneous downward pressure on oil and natural gas commodity prices caused by oversupply conditions as well as pricing strategies by global players. Testing was completed and no impairment resulted, as the calculated recoverable amount associated with the Corporation's CGUs was higher than their carrying amounts. The impacted CGUs were the Well Servicing & Snubbing Operations, Nitrogen Operations and Canadian Rental Operations.

Recoverable value is calculated as the greater of value in use and fair value less costs of disposal. At March 31, 2020, value in use was the relevant recoverable amount to use in the impairment calculations, calculated as the future five-year discounted net cash flows expected to be derived from the CGU's business, using forecast prices and cost estimates. Cash flows beyond the five-year forecast were extrapolated using a terminal value multiple.

The key assumptions used for the impairment calculations were as follows:

	Well Servicing & Snubbing Operations	Nitrogen Operations	Canadian Rental Operations
Revenue and cost escalations	0% - 2%	0% - 2%	0% - 2%
Terminal value multiple (gross profit)	7.7x	7.7x	7.7x
Discount rate – pre tax	15%	15%	15%

With all other variables constant, had the discount rate associated with the impairment calculation increased by 1%, the impairment recorded would have been $0.7 million. Similarly, had the cash flows decreased by 10%, the impairment recorded would have been $2.7 million.

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

As at March 31, 2020, an evaluation of the effectiveness of High Arctic’s DC&P as defined under the rules adopted by the Canadian securities regulatory authorities was carried out under the supervision and with the participation of management, including the Chief Executive Officer (“**CEO**”) and the Chief Financial Officer (“**CFO**”). Based on this evaluation, the CEO and CFO concluded that as at March 31, 2020, the design and operation of the Corporation’s DC&P was effective.

ICFR is a process designed by or under the supervision of management and effected by the Board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate ICFR, which no matter how well designed, has inherent limitations and can provide only reasonably assurance with respect to the preparation and fair presentation of published financial statements. Under the supervision and with the participation of the CEO and CFO, management conducted an evaluation of the effectiveness of its ICFR as at March 31, 2020.

Based on this evaluation, the CEO and CFO concluded that as at March 31, 2020, High Arctic’s ICFR was effective. The Internal Control – Integrated Framework (2013) as issued by the Committee of Sponsoring Organizations of the Treadway Commission was utilized for this purpose. As at March 31, 2020 there was no change in our ICFR that materially affected or is reasonably likely to materially affect our ICFR.

Business Risks and Uncertainties

In addition to the financial risks discussed above under “Financial Risk Management”, below under “Forward Looking Statements” and elsewhere in this MD&A, High Arctic is exposed to a number of business risks and uncertainties that could have a material impact on the Corporation. Readers of the Corporation’s MD&A should carefully consider the risks described under the heading “Risk Factors” in the Corporation’s December 31, 2019 AIF, which are specifically incorporated by reference herein. The AIF is available on SEDAR at www.sedar.com, copies of which can be obtained on request, without charge, from the Corporation.

Non-IFRS Measures

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

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

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

Adjusted EBITDA

Adjusted EBITDA is calculated based on EBITDA (as defined 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 (loss) or other measures of financial performance calculated in accordance with IFRS.

The following table provides a quantitative reconciliation of consolidated net earnings to EBITDA and Adjusted EBITDA for the three months ended March 31, 2020 and 2019:

($ millions)	Three months ended March 31 **2020**		2019
Net loss	**$**	**(2.2)**	$ (1.0)
Add:			
Interest and finance expense		**0.3**	0.2
Income taxes		**0.1**	-
Depreciation		**7.3**	7.0
EBITDA	**$**	**5.5**	$ 6.2
Adjustments to EBITDA:			
Share-based compensation		**0.1**	0.3
Gain on sale of property and equipment		**(2.8)**	(0.8)
Foreign exchange gain		**(0.1)**	(0.2)
Adjusted EBITDA	**$**	**2.7**	$ 5.5

Adjusted net earnings (loss)

Adjusted net earnings (loss) is calculated based on net earnings (loss) prior to the effect of costs not incurred in the normal course of business, such as consolidating facilities, gains and transaction costs incurred for acquisitions. Management utilizes Adjusted net earnings (loss) to present a measure of financial performance that provides for better comparability. Adjusted net earnings (loss) as presented is not intended to represent net earnings (loss) or other measures of financial performance calculated in accordance with IFRS. Adjusted net earnings (loss) per share and Adjusted net earnings (loss) per share – diluted are calculated as Adjusted net earnings (loss) divided by the number of weighted average basic and diluted shares outstanding, respectively. For the three months ended March 31, 2020 and 2019, net loss was the same as adjusted net loss of $2.2 million.

Oilfield services operating margin

Oilfield services operating margin is used by management to analyze overall operating performance. Oilfield services operating margin is not intended to represent net earnings (loss) or other measures of financial performance calculated in accordance with IFRS. Oilfield services operating margin is calculated as revenue less oilfield services expense.

Oilfield services operating margin %

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

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

($ millions, unless otherwise noted)	Three months ended March 31 **2020**		2019
Revenue	**$**	**39.6**	$ 46.5
Less:			
Oilfield services expense		**32.3**	37.3
Oilfield services operating margin	**$**	**7.3**	$ 9.2
Oilfield services operating margin %		**18%**	20%

Percent of revenue

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

Funds provided from operations

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

This measure is not intended to represent net cash generated from operating activities as calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of net cash generated from operating activities to funds provided from operations for the three months ended March 31, 2020 and 2019:

($ millions)	**Three months ended March 31 2020**	2019
Net cash generated from operating activities	**$ 8.6**	$ -
Less:		
Changes in operating non-cash working capital	**(6.6)**	4.8
Funds provided from operations	**$ 2.0**	$ 4.8

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 March 31 2020**	December 31 2019
Current assets	**$ 76.3**	$ 62.7
Less:		
Current liabilities	**(24.5)**	(26.9)
Working capital	**$ 51.8**	$ 35.8

Net cash

Net cash is used by management to analyze the amount by which cash and cash equivalents (if applicable) exceed the total amount of long-term debt and bank indebtedness, or vice versa.

The amount, if any, is calculated as cash and cash equivalents less total long-term debt. The following table provides a quantitative reconciliation of cash to net cash as follows:

($ millions)	**As at March 31 2020**	December 31 2019
Cash	**$ 28.3**	$ 9.3
Less:		
Long-term debt	**(10.0)**	-
Net cash	**$ 18.3**	$ 9.3

Forward-Looking Statements

This MD&A contains forward-looking statements. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions are intended to identify forward-looking statements. Such statements reflect the Corporation's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation's actual results, performance or achievements to vary from those described in this MD&A.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this MD&A include, among others, statements pertaining to the following: general economic and business conditions which will, among other things, impact demand for and market prices for the Corporation's services; expectations regarding the Corporation's ability to raise capital and manage its debt obligations; commodity prices and the impact that they have on industry activity; initiatives to reduce cash outlays by $25 million over 2019 levels; continued safety performance excellence; oversight of working capital to maintain a strong balance sheet; estimated capital expenditure programs for fiscal 2020 and subsequent periods; projections of market prices and costs; factors upon which the Corporation will decide whether or not to undertake a specific course of operational action or expansion; the Corporation's ongoing relationship with major customers; treatment under governmental regulatory regimes and political uncertainty and civil unrest; the Corporation's ability to maintain a USD bank account and conduct its business in USD in PNG; and the Corporation's ability to repatriate excess funds from PNG as approval is received from the Bank of PNG and the PNG Internal Revenue Commission.

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

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

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

Abbreviations

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

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