HIGH ARCTIC ENERGY SERVICES INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE YEARS ENDED
December 31, 2020 and 2019

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Management's Discussion and Analysis ("**MD&A**") is a summary review of core operations, strategy, outlook, risks, 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 March 11, 2021 and should be read in conjunction with the audited consolidated financial statements and notes for the years ended December 31, 2020 and 2019 (the "**Financial Statements**"). Additional information relating to the Corporation including the Corporation's Annual Information Form ("**AIF**") for the year ended December 31, 2020, is available under the Corporation's profile on SEDAR at www.sedar.com. This MD&A and the Financial Statements were reviewed by High Arctic's Audit Committee and approved by the Board of Directors on March 11, 2021. 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 significantly and certain assumptions used to underlie the forward-looking information. Definitions of certain non-IFRS financial measures are included on page 24 under the "Non-IFRS Measures" section.

Corporate Profile

Headquartered in Calgary, Alberta, Canada, High Arctic primarily provides oilfield services to exploration and production companies operating in Canada, and Papua New Guinea ("**PNG**"). A foothold has been established in the northern United States ("**US**"), however, operations have been idled pending an improved market opportunity. 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. These operating segments are all supported by a corporate segment.

High Arctic is a participant in, and manager of the Seh' Chene Limited Partnership ("**Seh' Chene**") with the Saa Dene Group of northern Alberta being the majority participant in the resulting Joint Arrangement. It is Seh' Chene's mission to execute dependable high-quality energy services, focused on environmental stewardship, while creating opportunity for local Indigenous communities and individuals.

Drilling Services

The Drilling Services segment consists of High Arctic's drilling services in PNG including the provision of personnel to assist our customer's drilling related operations. High Arctic has operated in PNG since 2007 and controls the largest fleet of tier-1 heli-portable drilling rigs in the country, 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 equipment and associated 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 well work-over services in PNG with its heli-portable hydraulic service rig 102. Revenue, expenses and assets related to the 2019 snubbing business acquisition have also 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 December 31, 2020 may be referred to as the "**Quarter**" or "**Q4-2020**", and similarly the year ended December 31, 2020 may be referred to as "**YTD-2020**". The comparative three months ended December 31, 2019 may be referred to as "**Q4-2019**" and similarly the year ended December 31, 2019 may be referred to as "**YTD-2019**". References to other quarters may be presented as "**QX-20XX**" with X being the quarter/year to which the commentary relates.

Highlights

- Delivered adjusted EBITDA of $8.5 million (2019 - $19.4 million) in an exceptionally difficult economic environment
- Strengthened our balance sheet and increased net cash to $22.6 million compared to the beginning of the year of $9.3 million
- Right-sized our business by eliminating a layer of head office management, reducing overheads and increasing efficiencies, resulting in $8.2 million of fixed cost savings in 2020
- Retained and renewed key customer contracts with a pro-active response to COVID-19, preserving service quality and passing through cost savings, and
- Continued investing in quality, safety, and equipment readiness, positioning the company to leverage opportunities with a turn-around in demand

2020 Overview

2020 was very trying for the energy industry as the world coped with a global health pandemic and an oil commodity price crisis that took root in the first quarter. The company demonstrated resilience and leadership in mitigating the impacts of an extremely difficult year that was characterized by tremendous oil price instability and record low customer demand. Changes were made at High Arctic during the year with an emphasis on our 2020 strategic priorities delivering the following outcomes:

- Aligned cost infrastructure and strengthened business model to sustain positive operating cash flow
  - Adjusted EBITDA of $1.2 million and $8.5 million for the three months and year ended December 31, 2020 (2019 - $3.6 million and $19.4 million)
- Positioned to enable key customer long-term production objectives
  - LNG export expansion in PNG through heli-portable drilling rigs and rental services
  - LNG export expansion in Canada through snubbing services on natural gas wells
  - Heavy oil production restoration in Canada through service rig fleet
  - Local community involvement and prosperity through indigenous relationships
- Delivered quality customer service evidenced by environment, social and governance (“**ESG**”) performance
  - Safety excellence
    - PNG operations - four years of continuous work Total Recordable Incident Free on August 24
    - Canadian operations - two years Lost Time Injury Free on September 29
    - 7 years Total Recordable Incident Free at our Cold Lake operations with our largest and longest standing Canadian customer, and
    - High Arctic was again recognized by the IADC-AC with a fourth Australasian Safety Statistics Award in the past five years
  - Regional workforce depth and capability within customer areas of work and local communities
  - Employee development and equal opportunity
  - Employee well-being including flexible work routines and robust information technology
  - Environmental footprint minimization through operational execution, equipment standards and design
- Preserved core operational strength in PNG and Canada despite extremely low 2020 customer demand
- Consolidated and reorganized executive and functional support into one global structure
- Preserved financial strength with $22.6 million net cash to exit 2020 (cash less long-term debt)
- Reinforced liquidity with extension of $45 million bank loan facility through August 2023 on favorable terms, and
- Achieved cash outflow targets compared to 2019 levels with a $35.1 million reduction against a $25 million target.

In addition to High Arctic specific positioning, management carries a cautiously positive view of 2021 at this time due to recent global developments that reinforce trends established in the second half of 2020, including:

- An oil and natural gas commodity price stabilization due to a concerted global effort by producers to balance supply with demand
- Major customers with financial discipline to work within improving operational cash flows to balance production growth with reducing debt leverage to restore capital market opportunities to fund long term objectives
- COVID-19 vaccine rollout and indications toward loosening of COVID-19 travel restrictions as population immunity takes hold, and
- Steadfast developments by governments in Canada and PNG to work with industry to deliver new infrastructure for LNG and oil export growth.

Outlook

Positive developments include a market driven reduction to oil production in North America and elsewhere and production cuts from members of the Organization of Petroleum Exporting Countries ("**OPEC**") and non-OPEC members. This, combined with increased demand, returned some stability in the overall global supply of oil during the latter stages of Q4-2020. Market optimism for near-term energy demand increase drove oil prices higher through the end of 2020 and into 2021. The emergence of many Asian nations from COVID-19 restrictions during Q3-2020 and a cold northern winter resulted in a net increase in Asian LNG imports and improved natural gas demand. Closing benchmark crude oil prices on December 31, 2020 have increased by 20% over September 30, 2020 and the rally has extended well in to Q1-2021. Many analysts are now increasing their 2021 and 2022 price targets for crude oil, LNG and natural gas.

Notwithstanding these positive developments, there remains considerable uncertainty associated with the pandemic. Resilience, adaptability, and seizing strategic opportunities remain essential.

Despite the improving commodity prices, our customers continue to be conservative with their capital and other spending forecasts, with modest forecast spending increases this year of approximately 14%, according to the Canadian Association of Petroleum Producers ("**CAPP**"). In addition, the impact of potential impairment charges on our property and equipment, the risk to collectability of accounts receivable and the measurement uncertainty caused by conditions imposed upon High Arctic's business will continue to be relevant in future periods if conditions do not meaningfully improve through the vaccination rollouts.

High Arctic was eligible for various government subsidies during 2020, which amounted to approximately $6.1 million YTD-2020. The Corporation will continue to monitor and apply for programs where eligibility criteria are met, however, the continuity of these programs as well as High Arctic's ability to access these may change in 2021 depending on how the criteria are established and/or changed.

Notwithstanding COVID-19 and its implications, and access to government subsidies in 2021 and beyond, the Corporation's operating plan provides options to prudently manage operations and prioritize financial flexibility. We are focused on strategies that have led to cost efficiency, building upon our decision to streamline management teams and generate positive cash flow in a depressed market. Focus on working capital management through 2020 to preserve our cash balances and maintain a strong balance sheet during the crisis has demonstrated High Arctic's resilience, and enabled us to increase our working assets as customers increase their work programs.

The recent rally has exposed potential opportunities in our industry sector, and prudent deployment of capital, judicious consideration of acquisitions that strengthen our service base and enhance shareholder value as well as strategic reflection on mergers that strengthen both parties will be carefully considered.

In Canada, stabilizing oil and gas prices resulted in exploration and production ("**E&P**") companies undertaking more well site work programs through Q4-2020 and into 2021, which combined with work from government well abandonments programs improved the utilization of assets in the Corporation's Production Services and Ancillary Services Segments. The Seh' Chene Partnership has secured its first projects with a long term Canadian customer of High Arctic's and has added more work sites in 2021.

The extreme cold experienced across North America in February 2021 had the short-term effect of shutting down our operations for several days, but conversely also resulted in meaningful draw down of oil and gas storage through extreme energy demand and shut in production.

We remain optimistic for a continued increase in activity for our Canadian services in 2021, driven in the near term by buoyant commodity prices, customer restoration of shut-in production, the well abandonment stimulus programs and our customers growing realization of the opportunity to deliver on ESG objectives while reducing end of life well abandonment costs. High Arctic believes we have a role to play in contributing to positive ESG worldwide outcomes. We have continued advancement of our investigation of technology to deliver on our customers needs for reliable, low cost well work solutions that reduce environmental impact while creating job opportunities for community-based oilfield workers.

E&P company activity and investments in the US have been increasing, and we continue to watch this market and look for sustainable opportunities to deploy our idled operations in Colorado and North Dakota. We currently still view these markets as too unstable to cost effectively reactivate at this time.

In Papua New Guinea recent developments are very encouraging for the progression of the TotalEnergies lead Papua LNG project with the PNG parliament enacting into legislation the key elements of the Papua LNG Gas Agreement. Further positive developments include the signing of a Fiscal Stability Agreement on February 9, 2021 and the renewal of the retention lease over the large Elk-Antelope gas field that will feed into the plant. The Corporation's drilling services remain suspended, however, we are still providing skilled personnel and rental equipment to assist our customers in their essential operations. We maintain ongoing dialogue with our major customers towards planning an effective return to work amid the ongoing travel constraints, leveraging off our demonstrated recent and long-term capacity as a PNG specialist contractor.

We believe High Arctic is well positioned to manage through this next phase of the crisis and into the post-pandemic period given our decisive early actions, our continued focus on cost efficiencies, maintaining adequate readiness and delivering quality services in a socially responsible manner. We have not compromised on front-line worker compensation, training, supervision or field QHSE support, and have maintained readiness of fleet and front line workforce aimed at being front positioned for an increase in activity where well servicing personnel will become a constraining factor. Our people continue to focus on quality as measured by safety performance excellence and long-term customer relationships. The health of our balance sheet, our strong working capital position, the renewed and extended $45.0 million credit facility, and the skill of our management team position us well to deliver shareholder value and grow our business.

Strategy

As demonstrated through 2020 results, the Corporation executed on its 2020 strategic priorities, including:

- ✓ Safety excellence and a focus on quality service delivery through consistent 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 challenging conditions of 2020, 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.

Our 2021 Strategic Priorities build on the platform created in 2020 and includes:

- ➢ Safety excellence and focus on quality service delivery through consistent global standards.
- ➢ Cost control focused on operating cash flow, while balancing strategic priorities to fuel growth.
- ➢ The pursuit of opportunities that secure the Corporation's future as a lower emissions energy services provider.
- ➢ Growth and divestiture opportunities that enhance shareholder value, align with our core service offerings, and are located in well understood markets, and
- ➢ Disciplined working capital management and capital stewardship to improve returns for shareholders including dividends and common share buybacks.

Select Comparative Financial Information

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

($ millions, except share amounts)	For the year ended **December 31 2020**	December 31 2019	December 31 2018
Revenue	**90.8**	185.5	203.3
Net earnings (loss)	**(25.9)**	(8.8)	11.4
Per share (basic and diluted) [(2)]	**(0.52)**	(0.18)	0.22
EBITDA [(1)]	**10.4**	23.1	48.7
Adjusted EBITDA [(1)(3)]	**8.5**	19.4	51.6
Adjusted EBITDA as % of revenue	**9%**	10%	25%
Operating earnings (loss)	**(27.5)**	(9.4)	23.7
Cash provided by operating activities	**19.7**	12.7	42.1
Per share (basic and diluted)	**0.40**	0.25	0.81
Funds provided from operations [(1)]	**5.8**	15.3	36.9
Per share (basic and diluted) [(2)]	**0.12**	0.31	0.71
Dividends	**1.6**	9.9	10.3
Per share (basic and diluted) [(2)]	**0.03**	0.20	0.20
Capital expenditures	**4.9**	14.8	9.8
Capital expenditures – acquisitions	**-**	8.3	8.0

(1) Readers are cautioned that EBITDA (Earnings before interest, tax, depreciation and amortization), Adjusted EBITDA, and Funds provided from operations do not have standardized meanings prescribed by IFRS – see "Non IFRS Measures" on page 24 for calculations of these measures. EBITDA includes the impact of wage and rent subsidies recorded.
(2) The number of common shares used in calculating net loss per share, funds provided from operations per share, and dividends per share is determined as explained in Note 11 of the Financial Statements.
(3) Adjusted EBITDA includes the impact of wage and rent subsidies recorded.

($ millions, except share amounts)	As at/ For the year ended **December 31 2020**	December 31 2019	December 31 2018
Working capital [(1)]	**44.8**	35.8	56.8
Cash, end of period	**32.6**	9.3	31.5
Total assets	**214.2**	251.8	272.4
Long-term debt	**10.0**	-	-
Total long-term financial liabilities	**17.8**	9.1	3.3
Shareholders' equity	**177.3**	205.6	234.2
YTD/share (basic and diluted)[(2)]	**3.58**	4.11	4.49
Common shares outstanding, millions	**48.8**	49.6	51.0

(1) Readers are cautioned that working capital does not have standardized meanings prescribed by IFRS – see "Non IFRS Measures" on page 24 for calculations of these measures.
(2) The number of common shares used in calculating shareholders' equity per share is determined as explained in Note 11 of the Financial Statements.

Global Developments and High Arctic's Strategic Objectives

The impact of inconsistent oil prices and COVID-19 has been very challenging. At the outset, and during Q4-2020, COVID-19 continued to impact the global economy, with governments around the world attempting to balance the implementation of measures to contain the virus, including new and emerging variants, against the need to open up economies. As economies successfully open up, the demand for energy including crude oil along with other products and services will also increase, however the timing of these events continues to be uncertain.

The full extent of the impact of COVID-19 on the Corporation's operations and future financial performance will depend on future developments that are uncertain and unpredictable, including the speed at which successful vaccinations will inoculate large portions of the global population, the development of substantive treatment options, the continued duration and spread of COVID-19 and/or variants of the virus, restrictions imposed by governments in attempts to control its spread, the 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 the primary inoculation of populations against the virus in the place where the Corporation operates.

High Arctic's quick adjustment to the severe financial impact of COVID-19 together with commodity price pressure implications, has resulted in measures to reduce certain cash outflows over prior-year 2019 levels including:

- A $18.2 million reduction in capital expenditures, where YTD-2020 capital spending of $4.9 million compares to YTD-2019 capital spending of $23.1 million ($14.8 million in equipment related Capex, and $8.3 million in business acquisition Capex)
- The suspension of monthly shareholder dividends in March 2020 has decreased cash outflows by $2.5 million in Q4-2020 compared to Q4-2019 and has resulted in a YTD-2020 reduction in cash outflows of $8.3 million
- A $4.3 million reduction in share buybacks helping to preserve pre-pandemic net cash
- The Company completed necessary downsizing of its workforce, where a total reduction of approximately 45% was made at executive, management and support personnel levels, decreasing salaries and related costs by $8.6 million YTD-2020
- Accelerated changes to streamline and globalize processes and reduce fixed infrastructure costs, and
- Board Executive Committee oversight through the COVID-19 crisis.

High Arctic's focus remains on being well positioned to navigate through the uncertainty with capacity ready for deployment as markets recover and activity levels increase, and includes:

- Sustained emphasis on the safety and well-being of our people, in particular through mature and focused operational health, safety and environment policies.
- Renewal and extension of customer contracts with modest changes with a core customer base in Canada.
- Continued support services to our major customers in PNG, and maintaining readiness to redeploy for drilling services.
- Continued use of government wage subsidy programs, to the extent that the Corporation continues to qualify, to maintain regional workforce strength.
- Carefully controlling recertification and maintenance expenditures enabling High Arctic to have equipment poised for quick activation from all our regional bases, and
- A strong opening liquidity position, with cash of $32.6 million and up to $35 million remaining Bank Facility borrowing capacity.

High Arctic continues to maintain close working relations with its customers and focus on high quality customer service differentiation as an absolute imperative. These attributes have been, and continue to be, key principles for High Arctic throughout the energy industry economic cycle.

The Corporation remains acutely aware that the impact to our customers' spending and their ability to pay for work completed on a timely basis could have a significant impact on High Arctic's financial and operating results and we continue to work closely with our customers to ensure credit and operating risks are minimized.

The Canadian federal government's $1.7 billion well abandonment and site reclamation stimulus plan announced in April 2020 has begun to benefit High Arctic, as the Corporation is able to use its' expertise on this important initiative. High Arctic has directly applied for hundreds of wells across the first tranches of the Alberta and Saskatchewan controlled programs, with approvals for some of this work commencing during the Quarter. With tens of thousands of inactive oil and gas wells across western Canada, we would expect that over the stimulus period, there will be opportunity for High Arctic to participate in these positive ESG initiatives.

Fourth Quarter 2020

- High Arctic reported revenue of $16.6 million during Q4-2020 (Q4-2019 - $42.8 million). Revenue was down across all operating segments due to the COVID-19 induced market conditions, but most markedly in Drilling Services due to the cessation of drilling work in PNG (refer to “Operating Segments and Results”, below).
- Utilization of the Corporation’s Concord Well Servicing fleet in Western Canada was 44% in the Quarter versus industry utilization of 30% (source: Canadian Association of Oilwell Drilling Contractors “**CAODC**”) and increased 16% over Q3-2020 and 40% from the lows experienced in Q2-2020.
- Utilization of the Corporation’s Western Canadian Snubbing and Nitrogen services increased 71% and 51% respectively over Q3-2020 and over 100% from the lows experienced in Q2-2020.
- High Arctic realized Adjusted EBITDA of $1.2 million during Q4-2020 (Q4-2019 - $3.6 million). EBITDA changes were mainly due to the $26.2 million of reduced revenue, attributable predominantly to lack of drilling in PNG and reduced levels of Production Services and Ancillary Services activity in Canada, offset by reduced operating and administrative costs of $23.8 million compared to Q4-2019. Results include CEWS benefits used to enable the retention of a well-positioned and skilled workforce, which provided $1.2 million in Q4-2020.
- High Arctic incurred a net loss of $11.5 million during Q4-2020 (Q4-2019 - $2.7 million). Net loss changes were due both to the reduced earnings generated through lower revenues and the Corporation’s review of its’ depreciation policy, specifically as it related to salvage value estimates, with resultant increased depreciation of $5.6 million for the Quarter.
- CEWS provided $1.2 million in wage subsidy relief, of which $1.1 million offset Oilfield services expenses and $0.1 million offset General and administrative expenses.
- Restructuring costs of $0.5 million were incurred in Q4-2020, as the Corporation worked to ensure right-sizing of overhead was aligned to activity and revenue, where $0.2 million related to operating personnel and $0.3 million to administrative personnel.
- There were no dividends declared or paid in Q4-2020, compared to $2.5 million in Q4-2019 ($0.05 per share).
- Cash decreased by $0.6 million during Q4-2020 as compared to a decrease of $2.8 million in Q4-2019.
- No further amounts were drawn on the Corporation’s remaining loan facility of up to $35.0 million.
- High Arctic repurchased and cancelled 991,600 common shares at a cost of $0.7 million under the NCIB in place during the Quarter, and
- Approval of a new NCIB by the Toronto Stock Exchange on December 8, 2020 enabling the acquisition of up to 2,437,983 common shares up to December 10, 2021, with no common shares purchased to date.

Year to date 2020

- High Arctic reported revenue of $90.8 million YTD-2020 (YTD-2019 - $185.5 million). Changes were mainly attributable to COVID-19 induced market conditions and travel restrictions across all operating segments (refer to “Operating Segments and Results”, below).
- High Arctic realized Adjusted EBITDA of $8.5 million (YTD-2019 - $19.4 million) which resulted from $94.7 million of decreased revenue, offset by decreases in operating and administrative costs of $83.8 million compared to YTD-2019. Results include CEWS benefits to enable the retention of a well-positioned and skilled workforce, which provided $6.1 million YTD-2020.
- High Arctic incurred a net loss of $25.9 million (YTD-2019 - $8.8 million). Net loss changes were due both to the reduced earnings generated as well as increased depreciation of $6.5 million due to the Corporation’s review of its’ depreciation policy, specifically salvage value estimates.
- YTD-2020, restructuring costs of $1.6 million were recorded, with $0.8 million charged against operations and $0.8 million against administrative costs. The Corporation believes that appropriate rationalization has been initiated to allow for business endurance into 2021 and beyond.
- Other significant YTD-2020 non-operational items include additional bad debt provision of $0.6 million and increased depreciation of $6.5 million over YTD-2019, offset by CEWS of $6.1 million which supported wages within the Corporation during the year.
- Strong working capital position of $44.8 million on December 31, 2020, including a cash balance of $32.6 million.
- A revolving bank loan facility with availability of $45.0 million, of which $10.0 million has been drawn, due August 31, 2023.

- Dividends amounting to approximately $0.8 million per month were suspended in March 2020. Consequently, YTD-2020 dividends amounted to $1.6 million ($0.03 per share), compared to $9.9 million YTD-2019 ($0.20 per share), and
- Resumption of share purchases under our Normal Course Issuer Bid ("**NCIB**") resulting in the acquisition of 1,137,100 common shares (2019 - 1,397,247) at an acquisition price of $0.8 million (2019 - $5.1 million).

Operating Segments and Results

($ millions, unless otherwise noted)	**Three months ended December 31 2020**	2019	**Year ended December 31 2020**	2019
Revenue:				
Drilling Services	**$ 1.6**	$ 13.5	**$ 25.4**	$ 71.5
Production Services	**13.8**	24.3	**57.8**	92.4
Ancillary Services	**1.7**	5.6	**9.4**	24.6
Inter-segment eliminations	**(0.5)**	(0.6)	**(1.8)**	(3.0)
	$ 16.6	$ 42.8	**$ 90.8**	$ 185.5
Oilfield Service Operating Margin [(1)]				
Drilling Services	**$ 0.4**	$ 2.8	**$ 6.6**	$ 15.1
Production Services	**2.7**	1.6	**10.1**	6.5
Ancillary Services	**0.8**	2.9	**4.6**	13.6
	$ 3.9	$ 7.3	**$ 21.3**	$ 35.2
Oilfield Service Operating Margin Percentage [(1)]				
Drilling Services	**25%**	21%	**26%**	21%
Production Services	**20%**	7%	**17%**	7%
Ancillary Services	**47%**	52%	**49%**	55%
	23%	17%	**23%**	19%

(1) See "Non-IFRS Measures" on page 24

Fourth Quarter 2020 Operating Segment Activity

- Despite the difficult operating environment, operating margin percentages increased from 17% to 23% comparing Q4-2020 to Q4-2019. This increase was as a result of strict cost control measures, in combination with CEWS operating cost recoveries of $1.1 million, offset by $0.5 million of restructuring costs incurred during the Quarter.
- Drilling Services revenues decreased by $11.9 million in the Quarter, and the resulting Oilfield Service operating margin decreased by $2.4 million quarter over quarter, with much of the decrease due to the cessation of drilling work in PNG, as a result of COVID-19 travel constraints and deferral of non-essential work by customers.
- Although Production Services revenues decreased by $10.5 million due to reduced customer work programs, Oilfield Service operating margins increased by $1.1 million quarter over quarter due to tight cost control measures and CEWS support.
- Ancillary Services quarterly revenues and oilfield service margins decreased by $3.9 million and $2.1 million respectively due to the decline of oilfield equipment rentals consistent with the suspension of PNG drilling activity.

Year to date 2020 Operating Segment Activity

- Operating margin percentages during 2020 increased from 19% YTD-2019 to 23% YTD-2020. Cost control measures, CEWS cost recoveries amounting to $5.3 million and offsetting restructuring costs amounting to $0.8 million collectively contributed to the change in margin percentages year over year.
- Drilling Services revenues and related oilfield service operating margins for the year decreased by $46.1 million and $8.5 million respectively. The shut-down of drilling work in PNG by our customers significantly impacted on our operations for the last 3 quarters of 2020.
- Production Services year to date revenues decreased by $34.6 million, however, oilfield service margins increased over YTD-2019 by $3.6 million. Disciplined cost controls and CEWS support contributed to higher margins, despite the year over year reduction in revenue.

- Ancillary Services revenues and related oilfield service operating margins for the year dropped by $15.2 million and $9.0 million, respectively. Rentals in this segment fell off, as customers were not able to operate at the same level due to COVID-19 restrictions and idle drilling activity.

Drilling Services Segment

($ millions, unless otherwise noted)	**Three months ended December 31 2020**	2019	**Year ended December 31 2020**	2019
Revenue	**$ 1.6**	$ 13.5	**$ 25.4**	$ 71.5
Oilfield services expense	**1.2**	10.7	**18.8**	56.4
Oilfield services operating margin [(1)]	**$ 0.4**	$ 2.8	**$ 6.6**	$ 15.1
Operating margin (%)	**25%**	21%	**26%**	21%

(1) See "Non-IFRS Measures" on page 24

The Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) and has an agreement to operate an additional two rigs (Rigs 103 and 104) on behalf of a major oil and gas exploration company in PNG.

During Q4-2020, Drilling Services revenue decreased 88% to $1.6 million from $13.5 million in Q4-2019 due to the continued cessation of drilling activity, and decreased 66% from Q3-2020 as minor services were released by customers as they completed critical activity, and travel restriction on their personnel into and within PNG were relaxed. During the Quarter, Rigs 103, 104, 115 and 116 all remained cold stacked, whereas during Q4-2019, Rig 103 was operating, and Rig 104 was partially operational.

YTD-2020, Drilling Services revenue decreased 64% to $25.4 million from $71.5 million for the same period in 2019. During 2020, the Corporation operated Rig 103 for part of the first quarter, whereas during 2019 Rig 103 operated throughout the period and Rig 104 operated throughout most 2019. Revenues generated in 2020 included the provision of manpower and services to support essential customer operations impacted by travel restrictions on foreign workers and contractors due to COVID-19.

Production Services Segment

($ millions, unless otherwise noted)	**Three months ended December 31 2020**	2019	**Year ended December 31 2020**	2019
Revenue	**$ 13.8**	$ 24.3	**$ 57.8**	$ 92.4
Oilfield services expense	**11.1**	22.7	**47.7**	85.9
Oilfield services operating margin [(1)]	**$ 2.7**	$ 1.6	**$ 10.1**	$ 6.5
Operating margin (%)	**20%**	7%	**17%**	7%

(1) See "Non-IFRS Measures" on page 24

Operating Statistics – Canada	**Three months ended December 31 2020**	2019	**Year ended December 31 2020**	2019
Service rigs:				
Average fleet [(2)]	**50**	57	**50**	57
Utilization [(3)]	**44%**	53%	**43%**	53%
Operating hours	**20,070**	27,382	**79,683**	109,162
Revenue per hour ($)	**581**	607	**587**	606
Snubbing packages:				
Average fleet [(4)]	**8**	18	**8**	18
Utilization	**23%**	19%	**20%**	16%
Operating hours	**1,696**	3,085	**6,054**	10,385

(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 packages marketed during the period.

Operating Statistics – US	Three months ended December 31 2020	2019	Year ended December 31 2020	2019
Service rigs:				
Average fleet [(2)]	**2**	2	**2**	2
Utilization [(3)]	**0%**	119%	**23%**	101%
Operating hours	**-**	2,186	**1,903**	5,543
Revenue per hour ($)	**-**	907	**883**	1,000
Snubbing packages:				
Average fleet [(4)]	**6**	6	**6**	6
Utilization	**0%**	25%	**5%**	32%
Operating hours	**-**	1,353	**1,138**	5,177

(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 packages 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 in 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.

US

Due to poor market conditions, High Arctic made the decision in Q3-2020 to idle its operations in North Dakota and Colorado.

Service rig hours were nil in the US during Q4-2020, decreasing by 2,186 hours compared to Q4-2019. YTD-2020, service rig hours were down 3,640 hours from 5,543 to 1,903, and revenue per hour moved from $1,000 per hour to $883 per hour.

Snubbing package hours were nil during Q4-2020, decreasing by 1,353 hours compared to Q4-2019, with YTD-2020 hours decreasing by 78% year over year.

Canada

Service rigs

During Q4-2020, overall service rig operating hours of 20,070 decreased by 32% compared to Q4-2019 at 29,568, with the US operating decrease accounting for 7% of the 32% decline. Pricing continues to remain competitive, with average revenue per hour for the Concord service rigs in Canada decreasing by 4% to $581 per hour in the Quarter from $607 per hour in Q4-2019. Service rig hours in Canada decreased from 27,382 in Q4-2019 to 20,070 in Q4-2020, due to one of our key customers shortening workdays and a longer holiday operational shutdown by many customers, together with the continued overall slowdown impact of COVID-19. Notwithstanding the competitive market and consistent with prior quarters, the Concord rigs achieved well above Canadian industry utilization at 44% versus the 30% utilization generated by the industry's registered well servicing rigs in the Quarter (source: CAODC).

YTD-2020, Service rig hours in Canada decreased from 109,162 to 79,683 hours, with decreased revenue per hour going from $606/hr to $587 per hour.

Snubbing packages

During Q4-2020, utilization in the Corporation's snubbing operations continued to increase as improving natural gas prices and the onset of cooler weather saw an increase in gas well drilling and resultant well completions by the Corporation's customers. While increasing compared to Q3-2020, Canadian snubbing service operating hours decreased in Q4-2020 and YTD-2020 by 45% and 42%, respectively, compared to the same periods in 2019. For the most part, gas drilling was subdued and customers deferred discretionary spending on well completions and technically complex well workovers, causing these decreases.

Overall

Operating margin percentage for the Quarter increased from 7% to 20% compared to Q4-2019. Margins on a year to date basis increased from 7% YTD-2019 to 17% YTD-2020. This is due to the continued effort in 2020 to control and manage costs, coupled with the impact of government wage subsidies recorded, net of restructuring costs incurred.

Ancillary Services Segment

($ millions, unless otherwise noted)	Three months ended December 31 2020	2019	Year ended December 31 2020	2019
Revenue	**$ 1.7**	$ 5.6	**$ 9.4**	$ 24.6
Oilfield services expense	**0.9**	2.7	**4.8**	11.0
Oilfield services operating margin [(1)]	**$ 0.8**	$ 2.9	**$ 4.6**	$ 13.6
Operating margin (%)	**47%**	52%	**49%**	55%

(1) See "Non-IFRS Measures" on page 24

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

During Q4-2020, the lack of significant well site work activity continued the downturn in well site associated rentals in PNG, including the contraction in the worksite matting market, reducing overall revenue and curtailing operating margins. YTD-2020, results follow that which was explained for the Quarter.

General and Administrative ("G&A")

($ millions, unless otherwise noted)	Three months ended December 31 2020	2019	Year ended December 31 2020	2019
G&A expenses	**$ 2.7**	$ 3.7	**$ 12.8**	$ 15.8
% of revenue	**16%**	9%	**14%**	9%

The overall decrease of $1.0 million in G&A for the Quarter compared to Q4-2019 is mainly due to reduced compensation costs as a result of reduced administrative personnel in the organization. During the Quarter compared to Q4-2019, gross personnel costs decreased by $1.1 million, CEWS reduced G&A by $0.1 million, various other G&A categories decreased by $0.1 million, offset by an incremental $0.3 million relating to restructuring costs.

As a percentage of revenue, G&A costs were 16% in Q4-2020 compared to 9% in Q4-2019, largely impacted by the reduction in revenues.

YTD-2020, G&A costs decreased by $3.0 million over the prior year. Gross personnel costs decreased by $3.2 million, CEWS reduced G&A by $0.8 million, offset by an incremental $0.8 million of restructuring costs, and increased legal costs of $0.2 million year over year, particularly as related to 2020 COVID-19 related AGM requirements. As a percentage of revenue, G&A costs were 14% year to date, compared to 9% YTD-2019, largely due to the reduction in year to date revenues.

As reflected in the reduction in G&A, High Arctic remains committed to ensuring these 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 $12.5 million in Q4-2020, and $35.5 million YTD-2020, compared to $7.3 million and $28.3 million during Q4-2019 and YTD-2019, respectively. Increases are due to the Corporation's review of its' depreciation policy, specifically as it related to salvage value estimates. As a result of this exercise, incremental depreciation was recorded to best reflect management's estimates as it relates to High Arctic's depreciation policy.

Share-based Compensation

Share-based compensation expense is the result of the charge to income over the service period relating to option or unit plans which generally 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, with reductions being recorded when significant cancellations or unanticipated forfeitures take place. Share-based compensation expense amounted to $0.3 million and $0.5 million during Q4-2020 and YTD-2020, respectively (Q4-2019 and YTD-2019 - $0.2 million and $0.5 million).

Performance Share Unit Plan

During Q4-2020 and YTD-2020, nil and 892,499 Performance share unit plan units ("**PSUP units**") were granted (Q4-2019 and YTD-2019 – 40,000 and 40,000).

During Q4-2020 and YTD-2020, 54,417 and 176,584 PSUP units were forfeited/cancelled (Q4-2019 and YTD-2019 – 7,140 and 30,956), with 7,596 and 306,288 exercised for these same respective periods (Q4-2019 and YTD-2019 – 45,305 and 53,639).

Deferred share units

During Q4-2020 and YTD-2020, 168,926 and 364,615 Deferred share units were granted (Q4-2019 and YTD-2019 – nil).

Foreign Exchange Transactions

The Corporation has exposure to US dollar ("**USD**") fluctuations and other currencies such as the PNG Kina ("**PGK"** or **"Kina**") through its international operations. As a result, the Corporation is exposed to foreign exchange gains and losses through the settlement of foreign currency denominated transactions, which is recorded in profit and loss, as well as the conversion of the Corporation's subsidiaries with functional currencies other than CAD, into CAD for financial reporting presentation purposes, which is recorded as part of other comprehensive income (loss), within equity.

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 $1.30 vs $1.32 during Q4-2019. As at December 31, 2020, the CAD to USD exchange rate was $1.27 vs $1.33 at September 30, 2020 and $1.30 as at December 31, 2019.

The impact of exchange rates for the Quarter resulted collectively in a $0.2 million foreign exchange loss (Q4-2019 - $nil) being recorded in the statements of earnings (loss) on various foreign currency denominated transactions and on the translation of foreign denominated monetary assets and liabilities. Similarly, YTD-2020, $0.2 million in foreign exchange losses were recorded (YTD-2019 - $0.3 million gain).

The fluctuation of USD vs CAD also resulted in a translation loss of $3.7 million for the Quarter (Q4-2019 – $1.9 million loss) associated with the translation of subsidiaries with functional currencies that are not CAD. These translation amounts are recorded in other comprehensive income (loss). Similarly, YTD-2020, $0.8 million was recorded as a translation loss (YTD-2019 - $5.4 million translation loss).

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

Interest and Finance Expense

	Three months ended December 31		Year ended December 31	
($ millions)	**2020**	2019	**2020**	2019
Interest on facility & standby fees	**$ 0.1**	$ -	**$ 0.4**	$ 0.2
Other bank charges	**0.1**	0.1	**0.1**	0.2
Finance expense – lease liabilities	**0.1**	0.2	**0.4**	0.5
Other	**-**	0.1	**0.2**	0.2
	$ 0.3	$ 0.4	**$ 1.1**	$ 1.1

During the Quarter, $0.1 million of interest expense was incurred on the loan facility, which remained constant at $10.0 million. No bank loan interest was recorded in 2019, as the facility was not drawn at that time.

Finance expense on lease liabilities associated with the time value of money of $0.1 million was recorded during the Quarter (Q4-2019 – $0.2 million). Similarly, YTD-2020, $0.4 million was recorded as finance expense on lease liabilities (YTD-2019 - $0.5 million).

Other interest expense amounted to $nil for the Quarter and $0.1 million YTD-2020 (Q4-2019 - $0.1 million, YTD-2019 - $0.1 million).

Income Taxes

($ millions)	Three months ended December 31 2020	2019	Year ended December 31 2020	2019
Net loss before income tax	**$ (12.1)**	$ (2.3)	**$ (26.2)**	$ (8.8)
Current income tax expense	**0.2**	0.1	**1.6**	3.0
Deferred income tax recovery	**(0.8)**	0.3	**(1.9)**	(0.5)
Total income tax expense	**$ (0.6)**	$ 0.4	**$ (0.3)**	$ 2.5
Effective tax rate	**5%**	(17%)	**1%**	(40%)

The Corporation's effective tax rate of 1% in 2020 compared to (40%) in 2019, was impacted by a number of reconciling items, with the largest being due to the Alberta tax rate reduction and the impact of the change in the unrecognized portion of the deferred tax asset as well as the reconciliation to the prior year provision.

Total Canadian non-capital losses carried forward for income tax purposes was $124.9 million at December 31, 2020 (2019 - $130.5 million), which expire in years 2027 through 2040.

At December 31, 2020, the total US non-capital losses carried forward for income tax purposes was USD $5.9 million (2019 - $2.3 million) which can be carried forward indefinitely.

In addition, at December 31, 2020, the capital losses carried forward for income tax purposes was $39.6 million (2019 - $39.6 million) which can be carried forward indefinitely, but only against capital gains.

Other Comprehensive Income (Loss)

As discussed above under Foreign Exchange Transactions, the Corporation recorded a $3.7 million foreign currency translation loss associated with subsidiaries with functional currencies other than CAD in other comprehensive income for the Quarter (Q4-2019 - $1.9 million). Similarly, YTD-2020, the Corporation recorded a $0.8 million foreign currency translation loss (YTD-2019 - $5.4 million).

For the Quarter, this occurred due to the strengthening of the CAD to the USD between Q3-2020 and Q4-2020. YTD-2020, the CAD also strengthened somewhat compared to the USD at December 31, 2020 relative to December 31, 2019, and this resulted in a net loss on the net assets held in the subsidiaries with USD as their functional currency.

Liquidity and Capital Resources

($ millions)	Three months ended December 31 2020	2019	Year ended December 31 2020	2019
Cash provided by (used in):				
Operating activities	**$ 2.1**	$ 1.2	**$ 19.7**	$ 12.7
Investing activities	**(1.1)**	(1.0)	**(1.2)**	(17.4)
Financing activities	**(0.9)**	(2.4)	**5.1**	(16.3)
Effect of exchange rate changes on cash	**(0.7)**	(0.6)	**(0.3)**	(1.2)
Increase (decrease) in cash	**$ (0.6)**	$ (2.8)	**$ 23.3**	$ (22.2)

($ millions, unless otherwise noted)	As at **December 31 2020**	 December 31 2019
Working capital [(1)]	**44.8**	35.8
Working capital ratio [(1)]	**5.1 : 1**	2.3 : 1
Net cash [(1)]	**22.6**	9.3
Undrawn availability under debt facilities	**35.0**	45.0

(1) See "Non-IFRS Measures" on page 24

The Bank of PNG 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 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 by operating activities of $2.1 million for the Quarter (Q4-2019 - $1.2 million) resulted from $0.7 million of funds provided from operations (Q4-2019 - $3.1 million), plus $4.4 million due to working capital balance changes (Q4-2019 – offset of $1.9 million), net of the reclassification of current income tax receivable of $3.0 million (2019 - $nil) to long-term.

YTD-2020, cash provided by operating activities amounted to $19.7 million (YTD-2019 - $12.7 million), with funds provided from operations amounting to $5.8 million (YTD-2019 - $15.3 million), and working capital balance changes amounting to $16.9 million resulting from the net impact of the collection of accounts receivable of $26.9 million, exceeding various liability payments, as well as the impact of the income tax receivable reclassification to long-term, as discussed above for the Quarter.

Investing Activities

During the Quarter, the Corporation's cash used in investing activities amounted to $1.1 million (Q4-2019 – $1.0 million) mainly as a result of capital expenditures. During Q4-2019, capital expenditures of $4.9 million were offset by proceeds on disposal of property and equipment of $3.3 million, and together with related working capital balance changes accounted for the majority of this activity.

YTD-2020, cash used in investing activities totalled $1.2 million (YTD-2019 – $17.4 million). YTD-2020 capital expenditures amounted to $4.9 million, proceeds of disposal were $5.1 million, with working capital balance changes representing the balance of the change. In the prior year, YTD-2019 capital expenditures were $14.8 million, business acquisition expenditures amounted to $8.3 million associated with the acquisition of a snubbing business, offset by proceeds from the sale of various assets of $5.9 million which created the movements in investing activities.

Financing Activities

During the Quarter, no further draws were taken on the available bank facility. YTD-2020, $10.0 million of the maximum $45.0 million long-term debt facility was drawn. No long-term debt existed at December 31, 2019.

High Arctic suspended dividends in March 2020, and as such no dividends were paid during the Quarter (2019 - $2.5 million). YTD-2020, $1.6 million in dividends were paid to shareholders, down $8.3 million from $9.9 million YTD-2019.

During the Quarter and YTD-2020, $0.7 million and $0.8 million was paid to repurchase and cancel common shares under the existing NCIB, versus $nil and $5.1 million in Q4-2019 and YTD-2019, respectively, under NCIBs in place at that time.

On December 8, 2020, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,437,983 common shares under an NCIB which commenced on December 11, 2020 and terminates on December 10, 2021. No common shares have been purchased under this NCIB up to and including March 11, 2021.

Credit Facility

As noted above, at December 31, 2020, the Corporation had drawn $10.0 million (December 31, 2019 - $nil) of its $45.0 million revolving bank loan facility, which matures on August 31, 2023. The facility is renewable with the lender's consent and is secured by a general security agreement over the Corporation's assets.

It provides for a $5.0 million overdraft for the duration of the term, which is inclusive of the $45.0 million available. The overdraft is not subject to covenant restrictions, however, is dependent upon North American asset net book values remaining above $50.0 million.

The facility is limited to 60% of the net book value of the Canadian fixed assets plus 75% of acceptable accounts receivable (85% for bank facility defined investment grade receivables), and 90% of insured receivables, less priority payables, and receivables that have been sold or factored, whether to the lender or another third party as defined in the loan agreement ("**Margin Requirement**").

Interest on the facility, which is independent of standby fees, is charged monthly at prime plus an applicable margin which fluctuates based on the Funded Debt to Covenant EBITDA ratio (defined below), where the applicable margin can range between 0.75% – 1.75% of the outstanding balance. Standby fees also fluctuate based on the Funded Debt to Covenant EBITDA ratio and range between 0.40% and 0.60% of the undrawn balance.

The facility is subject to two financial covenants which are reported to the lender on a quarterly basis. As at December 31, 2020, the Corporation was in compliance with these two financial covenants. The first covenant requires the Funded Debt to Covenant EBITDA ratio to be under 3.0 to 1 and the second covenant requires Covenant EBITDA to Interest Expense ratio to be a minimum of 3.0 to 1. Both are calculated on the last day of each fiscal quarter on a rolling four quarter basis.

The financial covenant calculations at December 31, 2020 are:

Covenant	Required	As at December 31, 2020
Funded debt to Covenant EBITDA (1)(2)	3.0 : 1 Maximum	**1.05 : 1**
Covenant EBITDA to Interest expense (2)	3.0 : 1 Minimum	**30.56 : 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 a trailing 12-month net income plus interest expense, current tax expense, depreciation, amortization, future income tax expense (recovery), share based compensation expense, and up to $1 million of restructuring costs in a twelve month trailing period, less gains from foreign exchange and sale or purchase of assets. Interest expense excludes impacts from IFRS 16.

In terms of sensitivity, had government assistance been excluded from Covenant EBITDA, the Corporation would have remained in compliance with its financial covenants for the reporting periods, however, the available borrowing headroom would have been reduced significantly.

The facility contains additional covenants and conditions impacting availability and repayment of borrowings under the facility. Events of default, which include material adverse change conditions, at the reasonable discretion of the lender, may result in facility indebtedness being immediately due and payable.

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 $7.9 million (December 31, 2019 - $8.0 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 make a payment to the customer equivalent to any inventory shortfall, and return the balance of inventory on hand.

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.

Common shares issued and outstanding:	**Year ended December 31, 2020** Shares	**Amount**	Year ended December 31, 2019 Shares	Amount
Balance, beginning of year	49,623,432	$ 173.1	51,009,011	$ 177.9
Issuance of performance share units	273,328	0.1	11,668	-
Normal course issuer bid	(1,137,100)	(3.9)	(1,397,247)	(4.8)
Balance, end of period	**48,759,660**	**$ 169.3**	**49,623,432**	**$ 173.1**

On December 8, 2020, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,437,983 common shares, representing approximately 10 percent of the Corporation's public float at the date of approval, under a NCIB.

The NCIB is valid for one year, commencing on December 11, 2020 and terminates on December 10, 2021. During the year ended December 31, 2020 and up to and including March 11, 2021, no common shares have been purchased under this NCIB.

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 at the date of approval, under a NCIB. The NCIB was valid for one year. It commenced on December 2, 2019 and terminated on December 1, 2020. During the year ended December 31, 2020, 1,137,100 common shares have been purchased and cancelled under this NCIB. Consideration paid for the year ended December 31, 2020 amounted to $0.8 million, where $3.9 million was charged against common shares and contributed surplus was increased by $3.1 million as a result of this activity. For the year ended December 31, 2019, no common shares were repurchased under this NCIB.

On November 15, 2018, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,700,386 common shares, representing approximately 10 percent of the Corporation's public float at that time, under a NCIB. The NCIB commenced on November 19, 2018 and was valid for one year. During the year ended December 31, 2019, the Corporation purchased and cancelled 1,397,247 common shares under this NCIB at a cost of $5.1 million.

Share capital was charged $4.8 million for the year ended December 31, 2019, and contributed surplus was decreased by $0.3 million as a result of this activity. During the entire term of the NCIB from November 19, 2018 to November 18, 2019, 1,643,335 common shares were purchased and cancelled at a total cost of $6.0 million.

At December 31, 2020, 265,500 stock options were outstanding at an average exercise price of $3.72, as well as 798,234 units under the Corporation's Performance Share Unit Plan and 523,117 units under the Deferred Share Unit plan. To the date of this MD&A, no further stock options or units have been issued.

No further common shares have been issued from December 31, 2020 to the date of this MD&A.

Quarterly Financial Review

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

	2020				**2019**			
($ millions, except per share)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2 (2)**	**Q1**
Revenue	**16.6**	18.5	16.1	39.6	42.8	49.6	46.6	46.5
Adjusted EBITDA (1) (3)	**1.2**	3.5	1.2	2.7	3.6	6.3	4.0	5.5
Net loss	**(11.5)**	(6.2)	(6.0)	(2.2)	(2.7)	(1.1)	(4.0)	(1.0)
Per share - basic	**(0.23)**	(0.12)	(0.13)	(0.04)	(0.06)	(0.02)	(0.08)	(0.02)
Adjusted net loss(1)(2)	**(11.5)**	(6.2)	(6.0)	(2.2)	(2.7)	(1.5)	(4.0)	(1.0)
Per share - basic	**(0.23)**	(0.12)	(0.13)	(0.04)	(0.05)	(0.02)	(0.08)	(0.02)
Cash provided by operating activities	**2.1**	1.2	7.8	8.6	1.2	2.6	8.9	-
Funds provided from operations (1)	**0.7**	2.2	0.9	2.0	3.1	5.3	2.1	4.8

(1) See "Non-IFRS Measures" on page 24
(2) Adjusted net 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. Adjusted net loss includes the impact of wages subsidies (CEWS) and rent subsidies recorded during 2020..
(3) Adjusted EBITDA includes the impact of wage subsidies (CEWS) and rent subsidies recorded.

During Q4-2020, High Arctic revenues decreased modestly by 10% compared to Q3-2020 due mainly to reduced service activity in PNG and impact of the holiday period shutdown in Canada. High Arctic revenues decreased by 61% compared to Q4-2019 precipitated by the continued negative impact of the COVID-19 pandemic which began in late Q1-2020. During 2020, the Corporation undertook restructuring, which continued throughout the year in an effort to manage reduced revenue and operating cash flow. The Corporation's activity and pricing for services has been significantly impacted by the global supply imbalance of oil and natural gas through the pandemic. High Arctic's outlook is hindered 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 as well as delays in project advancements in PNG and the changing world outlook for energy needs and pandemic recovery.

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			
($)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Oil and natural gas prices								
(Averages for the quarterly periods):								
Brent Crude Oil (USD $/bbl) (1)	45	43	33	51	63	62	63	64
Japan LNG (USD $/mmbtu) (2)	6.65	6.82	10.07	9.91	10.04	10.62	9.91	11.87
USD/CAD average exchange rate (1)	1.30	1.33	1.38	1.34	1.32	1.32	1.31	1.34

(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.

In the period subsequent to December 31, 2020 both Brent Crude Oil and Japan LNG have continued to climb with the key international oil index breaching $60/bbl, Japan LNG pushing towards $8/mmbtu and spot Asian LNG cargo prices in January 2021 reaching unprecedented levels over $30/mmbtu before settling back to trend.

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			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil and natural gas prices								
($ Avg for the period):								
West Texas Intermediate ("WTI") (USD $/bbl)(1)	39	41	28	46	57	56	55	55
West Canada Select ("WCS") (CAD $/bbl)(1)	36	42	22	34	54	58	55	57
Canadian Light Sweet Oil ("CLS") (CAD $/bbl) (1)	45	49	31	52	67	69	64	67
AECO (CAD $/mmbtu)(1)	2.65	2.27	2.00	2.03	2.48	1.00	0.61	2.62
Other industry indicators:								
Total wells drilled in W. Canada(2)	719	361	746	1,179	1,175	1,407	778	1,546
Avg service rig utilization rates (2, 3)	31%	22%	10%	38%	38%	37%	31%	42%
Avg drilling rig utilization rates (2, 3)	16%	9%	4%	35%	23%	23%	13%	29%

(1) Source: Sproule
(2) Source: wells drilled PSAC; Utilization rates CAODC
(3) Note that certain prior quarter rates have been corrected from that previously disclosed.

In Q4-2020, WTI, WCS and CLS average prices softened relative to Q3-2020 with most of the decrease in the early half of the Quarter before prices rallied in December. This has continued into 2021, though prices are still lower than historical averages.

The pricing changes are the result of the fall-out of the COVID-19 pandemic which began in Q1-2020, as well as the impact of supply and demand imbalances, substantively full storage facilities, a cold northern winter and optimism for improving world outlook for energy needs and pandemic recovery.

Pressure on 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 continues to collectively curtail activity relative to historical industry activity levels. Q4-2020 average industry rig utilization rates remained lower than Q4-2019, despite the further reduction in industry rig fleets due to decommissioning and/or cold stacking. With the change in government in the US, the future support and direction of the oil and gas industry is more uncertain, particularly as it relates to Canada as evidenced by the cancelation of the permit allowing the Keystone XL pipeline to cross the border from Canada into the US by the Biden administration in January 2021.

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 and endemics 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:

a) Interest;
b) commodity prices;
c) foreign currency exchange rates; and
d) PNG foreign currency restrictions.

Pandemic and or endemic 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 both within countries and also across national borders, by internally imposed rotational schedules and/or quarantine or illness of the workforce. Further, cyber-security risks increase as employees work from home. Such restrictions could significantly impact the ability for the Corporation to operate, and therefore impact financial results.

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 the long-term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates.

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 almost all 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 more importantly local, regional and world economic events. This includes implications from declining oil demand and over supply, climate change driven transitions to lower emission energy sources, the current COVID-19 pandemic which creates a scenario of both downward and fluctuating price pressure as well as the implications of changes to government and government policy including the policy directions that will be taken by the new US President and ongoing negotiations in PNG to build LNG expansion with industry. While High Arctic recognizes that the Corporation will be impacted by these risks, the Corporation also strongly believes that there is a significant role for the energy services industry in the current, transitionary and future phases of energy industry changes.

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.

The majority of the Corporation's international revenue and expenses are effectively transacted in USD and the Corporation does not actively engage in foreign currency hedging. For the year ended December 31, 2020, a $0.10 change in the exchange rate of the Canadian dollar relative to the USD would have resulted in change in net loss amounting to $0.3 million and $0.6 million for the Quarter and YTD-2020 as a result of changes in foreign exchange (Q4-2019 - $0.3 million and YTD-2019 - $0.1 million).

The Corporation's ability to repatriate funds from PNG is controlled by the PNG government through their central bank. There are currently a number of 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 December 31, 2020 USD $0.9 million (2019 - $2.9 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 drilling services 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 December 31, 2020:

($ millions)	USD (1)	PGK (2)	Australian Dollars ("**AUD**") (3)
Cash	$ 8.7	$ 6.1	$ 0.5
Accounts receivable	-	12.9	-
Accounts payable and accrued liabilities	(2.1)	(1.2)	(0.2)
Total	$ 6.6	$ 17.8	$ 0.3

(1) As at December 31, 2020, one USD was equivalent to 1.27 CAD.
(2) As at December 31, 2020, one PGK was equivalent to 0.36 CAD.
(3) As at December 31, 2020, one AUD was equivalent to 0.98 CAD.

Credit risk, customers and economic dependence

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

The Corporation's accounts receivable is predominantly with customers who explore for and develop petroleum reserves and are subject to 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.

In providing for expected credit losses, the Corporation uses the historical default rates within the industry between investment grade and non-investment grade customers as well as forward looking information to determine the appropriate loss allowance provision.

The net carrying amount of accounts receivable represents the estimated maximum credit exposure on the accounts receivable 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 and nine-month period ended December 31, 2020. Sales to these two customers were approximately $20.7 million and $19.9 million for the year ended December 31, 2020 (2019 - $84.3 million and $22.8 million). Of the $12.9 million recorded in Accounts receivable at December 31, 2020 (2019 – $39.8 million), $2.2 million (2019 - $16.3 million) or 17% (2019 – 41%) related to these two 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 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 December 31, 2020**	As at December 31, 2019
Less than 31 days	**$ 8.1**	$ 14.6
31 to 60 days	**3.1**	16.0
61 to 90 days	**1.2**	3.8
Greater than 90 days	**1.3**	5.6
Allowance for doubtful accounts	**(0.8)**	(0.2)
Total	**$ 12.9**	$ 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, authorization of contractual agreements, managing compliance to debt finance agreements, and remaining attentive to the relationship with High Arctic's lender. The Corporation seeks to manage its financing based on the results of these processes.

Further, the Corporation currently has up to $35.0 million in remaining availability under its' credit facility, subject to bank stipulated margin conditions, to enable execution on our 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, 2020.

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("**COVID-19**"). The outbreak and subsequent measures intended to limit the pandemic contributed to significant economic activity declines and volatility in commodity and financial markets. The pandemic continued to adversely impact global commercial activity, including significantly reducing worldwide demand for energy, impacting High Arctic's customers and High Arctic's business. At and about the same time, crude oil prices were also severely impacted by increased global supply due to disagreements over production restrictions between the OPEC and non-OPEC members, primarily Saudi Arabia and Russia.

While these first quarter 2020 developments significantly restricted global commerce and created an oil commodity price crisis, subsequent developments to close out a tumultuous COVID-19 year have set the basis for recovery. The supply impasse between Russia and Saudi Arabia quickly shifted to a significant supply reduction arrangement within OPEC Plus (OPEC and ten of the world's major non-OPEC oil-exporting nations) and Russia that has played an important role in an oil price recovery to near pre-pandemic levels almost a year later.

This was aided by many non-OPEC oil producers in North America and elsewhere for whom the stark economic outlook rooted in record low oil prices and pandemic driven demand uncertainty, brought about fiscal measures to immediately control oil supply. The global discipline required to maintain a balanced oil and gas supply focus, rather than exploitive production growth, will be required for the commodity price recovery to sustain. This recovery has also been heavily supported by governments in many regions around the world through fiscal and monetary policy objectives to reinforce consumer confidence and broad-based financial liquidity.

While the recovery trend is encouraging and a continuing focus on supply balance for oil and gas producers is warranted, a high level of uncertainty persists. This impacts High Arctic as the company pursues its strategy and allocates resources to support its principal markets in Canada driven by customer oil and natural gas production and in PNG where its customers are weighing final investment decisions on large LNG production expansion projects. In addition to COVID-19 pandemic and endemic risks, political risk associated with High Arctic's principal markets are also being influenced by the new administration in the US, ongoing policy setting and pipeline export infrastructure within Canada, and ongoing negotiations with industry by the PNG government.

In addition, the global focus to address climate change has created a rotation of investment capital away from the oil and gas industry in certain markets with the potential to increase High Arctic's cost of capital and reduce access to growth funding.

The full extent of the impact of COVID-19 on the Corporation's operations and future financial performance will depend on future developments that are uncertain and unpredictable, including the speed at which successful vaccinations will inoculate large portions of the global population, the development of substantive treatment options, the continued duration and spread of COVID-19 and/or variants of the virus, restrictions imposed by governments in attempts to control its spread, the 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 the primary inoculation of populations against the virus in the places where the Corporation operates.

The pandemic presents uncertainty and risk with respect to the Corporation, its performance, and estimates and assumptions used by Management in the preparation of financial results.

The pandemic and current market conditions have increased the complexity of estimates and assumptions used to prepare the Financial Statements, particularly related to:

i) Recoverable amounts of CGUs as it relates to impairment testing on property and equipment;

ii) Estimated credit losses as it relates to accounts receivable, particularly from customers who operate in the energy sector and are impacted by these same COVID-19 issues;

iii) Tax provisions where estimates are made of annual taxable income and also estimates regarding recoverability of deferred tax assets; and

iv) Classification of long-term debt as non-current where judgement is made regarding compliance with material adverse change conditions.

At December 31, 2020, High Arctic determined that indicators of impairment existed within two of the Corporation's CGUs, namely Well Servicing & Snubbing Operations and PNG Drilling. These indicators arose due to:

- the decision to re-evaluate our US operation strategy due to the continued and unprecedented worldwide effect of the COVID-19 pandemic; and
- the significant and continued uncertainty regarding utilization of our equipment in PNG.

Testing was completed and no impairment resulted. The Corporation's CGUs recoverable values were estimated to be higher than their carrying amounts. Recoverable value is calculated as the greater of value in use and fair value less costs of disposal. At December 31, 2020, value in use, as the relevant criteria, was 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. Management's estimates of recoverable amounts are subject to measurement uncertainty as the recoverable amounts are based upon current operating forecasts, utilization rates, equipment rates and costs, as well as estimates for salvage values and discount rates. External appraisals of the Corporation's rigs in PNG were completed and also relied upon for testing at December 31, 2020.

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

- a weighted average pre-tax discount rate ranging between 12% - 16%;
- revenue and cost escalations ranging between 1-3% and with adjustments reflecting an expectation of changes in the general economy, forecasted changes in drilling activity and the CGU's respective markets, and represents management's best estimate of the set of economic conditions that are expected to exist over the forecast period ; and
- a terminal value multiple (gross profit) of 7.7X

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 $2.3 million.

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

As at December 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 December 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 December 31, 2020.

Based on this evaluation, the CEO and CFO concluded that as at December 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 December 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, 2020 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, 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 loss and comprehensive loss, 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. Note that EBITDA is inclusive of government wage subsidies (CEWS) and rental subsidies recorded.

Covenant EBITDA

Covenant EBITDA, as defined in High Arctic's credit facility agreement, is used in determining the Corporation's compliance with its covenants. Covenant EBITDA is defined as a trailing 12-month net income (loss) plus interest expense, current tax expense, depreciation, amortization, deferred income tax expense (recovery), share based compensation expense, and up to $1 million of restructuring costs in a twelve month trailing period, less gains from foreign exchange and sale or purchase of assets. Interest expense excludes any impact of IFRS 16. Note that Covenant EBITDA is inclusive of government wage subsidies (CEWS) and rental subsidies recorded.

Adjusted EBITDA

Adjusted EBITDA is calculated based on EBITDA (as defined above) prior to the effect of share-based compensation, gains or losses on sales or purchases of assets or investments, business acquisition costs, impairment charges, other costs related to consolidating facilities, excess of insurance proceeds over costs and foreign exchange gains or losses. Note that adjusted EBITDA is inclusive of wage subsidies (CEWS) recorded.

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 and year ended December 31, 2020 and 2019:

($ millions)	Three months ended December 31 **2020**	2019	Year ended December 31 **2020**	2019
Net loss	**$ (11.5)**	$ (2.7)	**$ (25.9)**	$ (8.8)
Add (deduct):				
Interest and finance expense	**0.3**	0.4	**1.1**	1.1
Income taxes	**(0.6)**	0.4	**(0.3)**	2.5
Depreciation	**12.5**	7.3	**35.5**	28.3
EBITDA	**$ 0.7**	$ 5.4	**$ 10.4**	$ 23.1
Adjustments to EBITDA:				
Share-based compensation	**0.3**	0.2	**0.5**	0.5
Foreign exchange loss/(gain)	**0.2**	-	**0.2**	(0.3)
Gain on sale of property and equipment	**-**	(2.0)	**(2.6)**	(2.8)
Other income	**-**	-	**-**	(1.1)
Adjusted EBITDA	**$ 1.2**	$ 3.6	**$ 8.5**	$ 19.4

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, impairment, 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.

The following provides the quantitative reconciliation of net loss to Adjusted net loss for the three and Year ended December 31, 2020 and 2019:

($ millions)	Three months ended December 31 **2020**	2019	Year ended December 31 **2020**	2019
Net loss	**$ (11.5)**	$ (2.7)	**$ (25.9)**	$ (8.8)
Adjustments:				
Other income	**-**	-	**-**	(1.1)
Adjusted net loss	**$ (11.5)**	$ (2.7)	**$ (25.9)**	$ (9.9)

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 December 31 **2020**	2019	Year ended December 31 **2020**	2019
Revenue	**$ 16.6**	$ 42.8	**$ 90.8**	$ 185.5
Less:				
Oilfield services expense	**12.7**	35.5	**69.5**	150.3
Oilfield services operating margin	**$ 3.9**	$ 7.3	**$ 21.3**	$ 35.2
Oilfield services operating margin %	**23%**	17%	**23%**	19%

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 provided by operating activities before changes in non-cash 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 cash provided by operating activities to funds provided from operations for the three months and year ended December 31, 2020 and 2019:

($ millions)	Three months ended December 31 2020	2019	Year ended December 31 2020	2019
Cash provided by operating activities	**$ 2.1**	$ 1.2	**$ 19.7**	$ 12.7
Less:				
Changes in non-cash working capital balances - operating	**(4.4)**	1.9	**(16.9)**	2.6
Change in non-cash income tax receivable	**3.0**	-	**3.0**	-
Funds provided from operations	**$ 0.7**	$ 3.1	**$ 5.8**	$ 15.3

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 2020	December 31 2019
Current assets	**$ 55.8**	$ 62.7
Less:		
Current liabilities	**(11.0)**	(26.9)
Working capital	**$ 44.8**	$ 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 December 31 2020	December 31 2019
Cash	**$ 32.6**	$ 9.3
Less:		
Long-term debt	**(10.0)**	-
Net cash	**$ 22.6**	$ 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”, “prepare”, “determine” 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 over 2019 levels; reduction of annual indirect cost; continued safety performance excellence; realization of work from Site Rehabilitation Programs; oversight of working capital to maintain a strong balance sheet; estimated capital expenditure programs; 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; the Corporation's ability to receive approval from the Bank of PNG and the PNG Internal Revenue Commission to repatriate excess funds from PNG; the Corporation's cash outflow reduction initiatives and associated targets; and the Corporation's ability to comply with debt facility loan agreement terms and conditions.

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 strategies and 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
CAPP	- Canadian Association of Petroleum Producers
CAODC	- Canadian Association of Oilwell Drilling Contractors
CEWS	- Canada Emergency Wage Subsidy
CLS	- Canadian Light Sweet
DCP	- Disclosure controls and procedures
E&P	- Exploration and production
EBITDA	- Earnings before interest, tax, depreciation and amortization
ESG	- Environmental, Social and Corporate Governance
FID	- Final Investment Decision
ICFR	- Internal controls over financial reporting
IFRS	- International Financial Reporting Standards
IRC	- Internal Revenue Commission of PNG
LNG	- Liquified natural gas
MD&A	- Management discussion and analysis
mmbtu	- Million British thermal units
NCIB	- Normal course issuer bid
OPEC	- Organization of petroleum exporting countries
OPEC Plus	- OPEC and ten of the world's major non-OPEC oil-exporting nations
PGK	- Papua New Guinea Kina
PNG	- Papua New Guinea
US	- United States of America
USD	- United States dollars
WCS	- West Canada Select
WCSB	- Western Canadian sedimentary basin
WTI	- West Texas Intermediate