



HIGH ARCTIC ENERGY SERVICES INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

**FOR THE THREE MONTHS ENDED
March 31, 2021 and 2020**

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Three Months Ended March 31, 2021 and 2020

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 May 13, 2021 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes for the three months ended March 31, 2021 and 2020 (the "**Financial Statements**") and the audited consolidated financial statements and notes for the years ended December 31, 2020 and 2019. 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 May 13, 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 materially and certain assumptions used to underlie the forward-looking information. Definitions of certain non-IFRS financial measures are included on page 17 under the "Non-IFRS Measures" section.

Corporate Profile

Headquartered in Calgary, Alberta, Canada, High Arctic 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 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.

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.

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.

Ancillary Services

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

In the following discussion, the three months ended March 31, 2021 may be referred to as the "**Quarter**" or "**Q1-2021**". The comparative three months ended March 31, 2020 may be referred to as "**Q1-2020**". References to other quarters may be presented as "**QX-20XX**" with X being the quarter/year to which the commentary relates.

2021 First Quarter Highlights

- First quarter revenue of \$17.8 million, EBITDA of \$1.2 million, compared to \$39.6 million and \$5.5 million respectively in Q1-2020 and a slight improvement over Q4-2020 with \$16.6 million and \$0.7 million respectively.
- Total Energies SA recently announced its intention to remobilize teams and resources needed to proceed with development of the Papua LNG project.
- Balance sheet and liquidity remains strong with cash of \$21.0 million, no long-term debt and liquidity that includes an undrawn \$45.0 million revolving loan facility.
- Patent pending on a new low emission electric service rig design.

Select Comparative Financial Information

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

| | For the three months ended March 31 | |
|---|-------------------------------------|-------------------|
| (\$ millions, except per share amounts) | 2021 | 2020 |
| Revenue | 17.8 | 39.6 |
| Net loss | (5.2) | (2.2) |
| Per share (basic and diluted) ⁽²⁾ | (0.11) | (0.04) |
| Oilfield services operating margin ⁽¹⁾ | 3.3 | 7.3 |
| Oilfield services operating margin as a % of revenue ⁽¹⁾ | 18.5% | 18.4% |
| EBITDA ⁽¹⁾ | 1.2 | 5.5 |
| Adjusted EBITDA ^{(1) (3)} | 0.8 | 2.7 |
| Adjusted EBITDA as % of revenue ⁽¹⁾ | 4.5% | 6.8% |
| Operating loss | (6.2) | (4.7) |
| Cash provided by (used in) operating activities | (1.3) | 8.6 |
| Per share (basic and diluted) ⁽²⁾ | (0.03) | 0.17 |
| Funds provided by operations ⁽¹⁾ | 0.4 | 2.0 |
| Per share (basic and diluted) ⁽²⁾ | 0.01 | 0.04 |
| Dividends | - | 1.6 |
| Per share (basic and diluted) ⁽²⁾ | - | 0.03 |
| Capital expenditures | 0.8 | 1.9 |
| | As at | |
| (\$ millions, except share amounts) | March 31, 2021 | December 31, 2020 |
| Working capital ⁽¹⁾ | 34.7 | 44.8 |
| Cash, end of period | 21.0 | 32.6 |
| Total assets | 197.6 | 214.2 |
| Long-term debt | - | 10.0 |
| Total long-term financial liabilities | 7.7 | 7.8 |
| Shareholders' equity | 171.3 | 177.3 |
| Per share (basic and diluted) ⁽²⁾ | 3.51 | 3.58 |
| Common shares outstanding, millions | 48.8 | 48.8 |

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

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

(3) Adjusted EBITDA includes the impact of wage and rent subsidies recorded.

Outlook

The rally in oil and gas prices in markets around the world continued throughout the first quarter of 2021 despite some challenges and the price rally continues to the date of this MD&A. Benchmark indices including Brent Crude, WTI Crude, Western Canadian Select, LNG JKM, Henry Hub and Alberta Natural Gas all reached peaks not seen since the pre-pandemic period in Q1-2020 and have been recently trading in elevated stable bands. Utilization of High Arctic's services in Canada has continued to rise through the Quarter as our customers sought to raise their production. To date, producers have been conservative with their capital, with many prioritizing balance sheet improvement over capital investment, but the prospect of sustained commodity prices has High Arctic expecting further increases in demand for our services throughout 2021.

During Q1-2021, Covid-19 continued to impact the global economy, with governments around the world attempting to balance measures to contain the virus, including new and emerging variants, against the need to open up economies. In the US, infection rates have slowed markedly as vaccinated populations grow. There are strong indications of economic recovery in the US that have buoyed both consumers and capital markets. In Canada as vaccination rates climb relaxation of social and economic restrictions are expected to take place with a corresponding improvement in business and travel confidence. In turn, this should drive increases in domestic energy demand during the second half of 2021 and beyond, matching the momentum in the US, the largest buyer of exported Western Canadian crude oil products. High Arctic has already seen a busier Q2-2021 in Canada following an early spring breakup and we are seeing improved interest in our services. High Arctic aims to differentiate itself by focusing on high quality customer service using well maintained equipment that is operated by highly competent personnel.

For more than a year High Arctic has been internally progressing work on a practical process to convert existing Concord well servicing rigs to a reliable, efficient and inexpensive electric drive. We are pleased to announce that patent is pending on the design and we plan to identify industry partners to further test the technology at a pilot site in 2021. We see tremendous opportunity for the deployment of this technology in Western Canada, particularly in thermal well applications where existing supply of electrical power of adequate capacity is already available. Crucially at this stage of development the upgraded service rig maintains its ability to self propel down the highway. The upgrade is estimated to reduce the Co2 emissions of a well service rig over the wellbore by more than 35% compared to current diesel-powered rigs.

High Arctic was eligible for various government subsidies during Q1-2021, which are described in this MD&A. The Corporation will continue to apply for programs where eligibility criteria are met, including the Canada Emergency Wage Subsidy ("CEWS"), however, the amount of subsidies is expected to be less than comparable 2020 levels.

In Papua New Guinea, a recent spike in Covid-19 cases has seen travel bans imposed by its near neighbour Countries, particularly Australia. The Australian travel ban has the result of shutting down the primary source of skilled expatriate PNG workers. The result for High Arctic has been a continuation of the cessation of all drilling and exploration activity and the deferral of our customers nonessential plant maintenance and project activity. Reliable travel routes to PNG are essential for projects to recommence. High Arctic has taken steps to ensure that our capability as the PNG specialist energy service contractor will be preserved. We maintain regular dialogue with our customers, employees, and industry and government representatives. We expect a modest return to work later in 2021 as Covid-19 prevention strategies take hold and are optimistic of more meaningful activity increases in the medium to longer term. Last week, TotalEnergies and the PNG government announced the remobilization of Papua LNG Project teams and other required resources to complete project pre-feed on the pathway to a final investment decision in 2023. This announcement follows others from the PNG Government in recent months that indicate a change in tone towards both foreign investment and resource projects, and the importance of LNG expansion to the people of PNG.

Strategy

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

- 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 that potentially include dividends and common share buybacks.

Discussion of Operations

First Quarter 2021 Summary:

- High Arctic reported revenue of \$17.8 million, incurred a net loss of \$5.2 million and realized Adjusted EBITDA of \$0.8 million during Q1-2021. This compares to Q1-2020, with revenue of \$39.6 million, a net loss of \$2.2 million and Adjusted EBITDA of \$2.7 million.
- Changes were mainly due to \$21.8 million of reduced revenue, primarily attributable to the ongoing suspension of drilling activity in PNG and associated ancillary services and the impact of two extreme weather events that impacted some of the Corporation's activity in Western Canada, partially offset by \$2.1 million in reduced general and administrative costs attributable to the 2020 restructuring and cost reduction initiatives undertaken by management.
- Oilfield services operating margin decreased by 54.8% in Q1-2021 compared to Q1-2020 to \$3.3 million from \$7.3 million, with reductions of \$3.2 million in Drilling Services and \$1.5 million in Ancillary Services, partially offset by an increase of \$0.7 million in Production Services.
- The CEWS provided \$0.9 million in wage subsidy relief, of which \$0.8 million offset Oilfield services expenses and \$0.1 million offset General and administrative expenses.
- No dividends were paid in Q1-2021, compared to \$1.6 million paid in Q1-2020 (\$0.03 per share). High Arctic suspended its monthly dividend in March 2020.
- Cash decreased by \$11.6 million in Q1-2021 as compared to a cash increase of \$19.0 million in Q1-2020.
- The Corporation repaid the \$10 million outstanding amount on its available \$45 million revolving loan facility in March 2021. No amount is drawn under this facility as of the date of this MD&A.
- Utilization for High Arctic's 49 registered Concord Well Servicing rigs was 48% in the Quarter versus industry utilization of 39% (source: Canadian Association of Oilwell Drilling Contractors "CAODC"), and
- High Arctic did not repurchase any shares under the NCIB in place during the Quarter.

Operating Results

Drilling Services Segment

| | Three months ended March 31 | |
|---|-----------------------------|--------------|
| (\$ millions, unless otherwise noted) | 2021 | 2020 |
| Revenue | 0.8 | 13.9 |
| Oilfield services expense | 0.8 | 10.7 |
| Oilfield services operating margin ⁽¹⁾ | - | 3.2 |
| <i>Operating margin (%)</i> | <i>-%</i> | <i>23.0%</i> |

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

Drilling Services revenues decreased by \$13.1 million in the Quarter, and the resulting Oilfield services operating margin decreased by \$3.2 million quarter over quarter, with the decreases primarily 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.

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 Q1-2021, Drilling Services revenue decreased 94.2% to \$0.8 million from \$13.9 million in pre-pandemic Q1-2020 due to the continued cessation of drilling activity. During the Quarter, Rigs 103, 104, 115 and 116 all remained cold stacked, whereas during Q1-2020, Rigs 103 and 104 were operational.

Production Services Segment

| | Three months ended March 31 | |
|---|-----------------------------|-------------|
| (\$ millions, unless otherwise noted) | 2021 | 2020 |
| Revenue | 15.4 | 21.8 |
| Oilfield services expense | 13.2 | 20.3 |
| Oilfield services operating margin ⁽¹⁾ | 2.2 | 1.5 |
| <i>Operating margin (%)</i> | <i>14.3%</i> | <i>6.9%</i> |

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

| Three months ended March 31 | | |
|-------------------------------|--------|--------|
| Operating Statistics - Canada | 2021 | 2020 |
| Service rigs: | | |
| Average fleet ⁽²⁾ | 49 | 51 |
| Utilization ⁽³⁾ | 48% | 58% |
| Operating hours | 21,120 | 26,899 |
| Revenue per hour (\$) | 600 | 623 |
| Snubbing rigs: | | |
| Average fleet ⁽⁴⁾ | 8 | 9 |
| Utilization ⁽³⁾ | 28% | 31% |
| Operating hours | 2,009 | 2,555 |

(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.

Although Production Services revenues decreased by \$6.4 million in the Quarter due to reduced customer work programs, Oilfield Service operating margins increased by \$0.7 million compared to Q1-2020 due to tight cost control measures and CEWS support.

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.

Canada

Overall

Overall operating margin percentage for the Quarter increased from 6.9% to 14.3% compared to pre-pandemic Q1-2020 due to the continued effort to control and manage costs, in addition to the impact of government wage subsidies recorded.

Service Rigs

While utilization rose 10.6% from Q4-2020, during Q1-2021 overall service rig operating hours of 21,120 increased 5.2% compared to Q4-2020 and decreased by 21.5% compared to pre-pandemic Q1-2020 at 26,899 hours. The increase over Q4-2020 would have been greater except that operations were suspended two times in the Quarter due to extreme cold and wind speeds. Pricing continues to remain competitive, with average revenue per hour for the Concord service rigs in Canada decreasing by 3.7% to \$600 per hour in the Quarter from \$623 per hour in Q1-2020.

Snubbing packages

While utilization rose 18.4% from Q4-2020, during Q1-2021 snubbing service operating hours of 2,009 increased 18.5% compared to Q4-2020 and decreased by 21.4% compared to pre-pandemic Q1-2020 at 2,555 hours. The increase in activity was due to the continuation of gradual month to month increases in gas well completion work since the market lows of April 2020.

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 remained nil in the US during Q1-2021, decreasing by 1,114 hours compared to Q1-2020 when the Corporation marketed the services of 3 rigs. Snubbing package hours remained nil during Q1-2021, decreasing by 467 hours compared to Q1-2020 when the Corporation marketed the services of 6 packages.

Ancillary Services Segment

| Three months ended March 31 | | |
|---|-------|-------|
| (\$ millions, unless otherwise noted) | 2021 | 2020 |
| Revenue | 2.2 | 4.5 |
| Oilfield services expense | 1.1 | 1.9 |
| Oilfield services operating margin ⁽¹⁾ | 1.1 | 2.6 |
| Operating margin (%) | 50.0% | 57.8% |

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

Ancillary Services revenues and oilfield service margins decreased by \$2.3 million and \$1.5 million, respectively, in the Quarter primarily due to the decline of oilfield equipment rentals consistent with the suspension of PNG drilling activity.

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

During Q1-2021 utilization of nitrogen services increased 25% from Q4-2020 levels reflecting the continued rebound in Canadian activity and contributed to a \$0.5 million increase in revenue from Q4-2020, but could not offset the lack of significant activity in PNG, reducing overall revenue and curtailing operating margins compared to Q1-2020.

General and Administrative ("G&A")

| Three months ended March 31 | | |
|---------------------------------------|-------|-------|
| (\$ millions, unless otherwise noted) | 2021 | 2020 |
| G&A | 2.5 | 4.6 |
| % of revenue | 14.0% | 11.6% |

G&A costs decreased by \$2.1 million or 45.7% as compared to Q1-2020. This decrease is mainly due to reduced compensation costs as a result of reduced management and administrative personnel in the organization. During the Quarter compared to Q1-2020, gross personnel costs decreased by \$1.3 million, CEWS reduced G&A by \$0.1 million, various other G&A categories decreased by \$0.4 million, and restructuring costs decreased by \$0.3 million.

As a percentage of revenue, G&A costs were 14.0% in Q1-2021 compared to 11.6% in Q1-2020, largely impacted by the reduction in 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 \$6.9 million in Q1-2021, compared to \$7.3 million in Q1-2020.

Share-based Compensation

Share-based compensation expense is the charge to income over the service period relating to stock 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. During Q1-2021, share-based compensation amounted to \$0.1 million, compared to \$0.1 million in Q1-2020.

Interest and Finance Expense

| Three months ended March 31 | | |
|---------------------------------------|------|--------|
| (\$ millions) | 2021 | 2020 |
| Interest and standby fees – bank loan | 0.1 | \$ 0.1 |
| Finance expense – lease liabilities | 0.1 | 0.1 |
| Other | - | 0.1 |
| Total | 0.2 | 0.3 |

During the Quarter, \$0.1 million of interest expense was incurred on the revolving loan facility, which was fully repaid in March 2021. Other finance expenses amounted to \$Nil for the Quarter (Q1-2020 - \$0.1 million).

Finance expense on lease liabilities associated with the time value of money of \$0.1 million was recorded during the Quarter (Q1-2020 - \$0.1 million), as the liability is initially recorded at its present value.

Income Taxes

| Three months ended March 31 | | |
|--|-------|-------|
| (\$ millions, unless otherwise noted) | 2021 | 2020 |
| Loss before income taxes | (5.9) | (2.1) |
| Current income tax expense | 0.2 | 0.4 |
| Deferred income tax expense (recovery) | (0.9) | (0.3) |

| | | |
|--------------------------|---------|------|
| Total income tax expense | (0.7) | 0.1 |
| Effective tax rate | (11.9%) | 4.8% |

The Corporation's effective tax rate was (11.9%) for the quarter (Q1-2020 - 4.8%) was impacted by withholding taxes paid in PNG and a decrease in the deferred tax liability due to non-capital losses incurred in a foreign subsidiary.

Other Comprehensive Income (Loss)

As discussed above under Foreign Exchange Transactions, the Corporation recorded a \$0.9 million foreign currency translation loss (Q1-2020 - \$8.5 million foreign currency translation gain) associated with subsidiaries with functional currencies other than CAD in other comprehensive income (loss) for the Quarter. This occurred due to the strengthening of the CAD compared to the USD at March 31, 2021 relative to December 31, 2020.

Summary of Quarterly Results

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

| (\$ millions, except per share) | 2021 | | 2020 | | | 2019 | | |
|---|--------|--------|--------|-------------------|--------|--------|--------|-------------------|
| | Q1 | Q4 | Q3 | Q2 ⁽³⁾ | Q1 | Q4 | Q3 | Q2 ⁽²⁾ |
| Revenue | 17.8 | 16.6 | 18.5 | 16.1 | 39.6 | 42.8 | 49.6 | 46.6 |
| Adjusted EBITDA ⁽¹⁾⁽³⁾ | 0.8 | 1.2 | 3.5 | 1.2 | 2.7 | 3.6 | 6.3 | 4.0 |
| Net loss | (5.2) | (11.5) | (6.2) | (6.0) | (2.2) | (2.7) | (1.1) | (4.0) |
| Per share – basic and diluted | (0.11) | (0.23) | (0.12) | (0.13) | (0.04) | (0.06) | (0.02) | (0.08) |
| Adjusted net loss ⁽¹⁾⁽²⁾⁽³⁾ | (5.2) | (11.5) | (6.2) | (6.0) | (2.2) | (2.7) | (1.5) | (4.0) |
| Per share – basic and diluted | (0.11) | (0.23) | (0.12) | (0.13) | (0.04) | (0.05) | (0.02) | (0.08) |
| Cash provided by (used in) operating activities | (1.3) | 2.1 | 1.2 | 7.8 | 8.6 | 1.2 | 2.6 | 8.9 |
| Funds provided by operations ⁽¹⁾ | 0.4 | 0.7 | 2.2 | 0.9 | 2.0 | 3.1 | 5.3 | 2.1 |

(1) See "Non-IFRS Measures" on page 16

(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 CEWS and rent subsidies recorded during 2021 and 2020.

(3) Adjusted EBITDA includes the impact of CEWS and rent subsidies recorded during 2021 and 2020

During Q1-2021, High Arctic revenues increased by 7.2% compared to Q4-2020 due predominantly to increasing activity in Canada from the Corporation's production services and ancillary services segments. High Arctic revenues decreased by 55.1% compared to Q1-2020 precipitated by the continued negative impact of the COVID-19 pandemic which began in late Q1-2020 and the resulting suspension of drilling activity in PNG which continues to the date of this MD&A. 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 encouraged by the changing world outlook for energy needs and pandemic recovery, yet 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.

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.

Liquidity and Capital Resources

| (\$ millions) | Three months ended March 31 | |
|-----------------------------|-----------------------------|------|
| | 2021 | 2020 |
| Cash provided by (used in): | | |
| Operating activities | (1.3) | 8.6 |
| Investing activities | 0.1 | 1.9 |

| | | |
|---|--------|------|
| Financing activities | (10.3) | 7.1 |
| Effect of exchange rate changes on cash | (0.1) | 1.4 |
| Increase (decrease) in cash | (11.6) | 19.0 |

| (\$ millions, unless otherwise noted) | As at | |
|--|----------------|-------------------|
| | March 31, 2021 | December 31, 2020 |
| Working capital ⁽¹⁾ | 34.7 | 44.8 |
| Working capital ratio ⁽¹⁾ | 4.0 : 1 | 5.1 : 1 |
| Net cash ⁽¹⁾ | 21.0 | 22.6 |
| Undrawn availability under debt facilities | 45.0 | 35.0 |

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

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

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

Operating Activities

Cash used in operating activities of \$1.3 million for the Quarter (Q1-2020 – cash from operating activities of \$8.6) was due to \$0.4 million of funds provided by operations less \$1.7 million due to working capital changes, mainly the increase in accounts receivable during the Quarter.

Investing Activities

During the Quarter, the Corporation's cash from investing activities amounted to \$0.1 million (Q1-2020 – \$1.9 million). Capital expenditures during the Quarter of \$0.8 million (Q1-2020 - \$1.9 million) were partially offset by proceeds on disposal of \$0.6 million (Q1-2020 – \$4.9 million). The balance of the change related to working capital balance changes for capital items.

Financing Activities

During the Quarter, the Corporation repaid the \$10 million amount outstanding on its \$45 million revolving debt facility from December 31, 2020.

High Arctic suspended dividends in March 2020, and as such no dividends were paid during the Quarter (Q1-2020 - \$1.6 million).

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 the date of this MD&A.

Credit Facility

The Corporation has a \$45.0 million revolving facility which has a maturity date of August 31, 2023, is renewable with the lender's consent, and is secured by a general security agreement over the Corporation's assets. The \$45 million revolving facility includes a \$5.0 million overdraft component.

The total amount advanced under the revolving 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 the lender’s prime rate plus an applicable margin which fluctuates based on the Funded Debt to EBITDA ratio (defined below). The applicable margin can range between 0.75% – 1.75%. Standby fees also fluctuate based on the Funded Debt to EBITDA ratio and range between 0.40% – 0.60% of the undrawn balance.

The facility is subject to two financial covenants which are reported to the lender on a quarterly basis. The first covenant requires the Funded Debt to EBITDA ratio to be under 3.0 to 1 and the second covenant requires EBITDA to Interest Expense ratio (defined below) 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. As at March 31, 2021, the Corporation was in compliance with these two covenants.

Funded Debt to 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. Interest Expense excludes any impact related to lease liabilities (note 5). EBITDA for the purposes of calculating the covenants is defined as a trailing 12-month net income (loss) plus interest expense, current tax expense, deferred income tax expense (recovery), depreciation, amortization, 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.

The facility contains additional non-financial 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, 2020 - \$7.9 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 to the customer.

Outstanding Share Data

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

| | Three months ended March 31, 2021 | | Year ended December 31, 2020 | |
|---------------------------------------|--------------------------------------|-------------------------|---------------------------------|-------------------------|
| | Shares | Amount (\$ millions) | Shares | Amount (\$ millions) |
| Common shares issued and outstanding: | | | | |
| Balance, beginning of period | 48,759,660 | 169.3 | 49,623,432 | 173.1 |
| Exercise of performance share units | 52,289 | 0.3 | 273,328 | 0.1 |
| Normal course issuer bid | - | - | (1,137,100) | (3.9) |
| Balance, end of period | 48,811,949 | 169.6 | 48,759,660 | 169.3 |

To the date of this MD&A, no further common shares have been issued. No preferred shares have been issued by the Corporation.

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 Normal Course Issuer Bid (“NCIB”). The NCIB is valid for one year, commencing on December 11, 2020 and terminates on December 10, 2021. No common shares have been purchased under this NCIB to the date of this MD&A.

As at March 31, 2021, there were 165,000 stock options outstanding at an average exercise price of \$3.73 as well as 666,866 units under the Corporation's Performance Share Unit Plan and 567,558 units under the Deferred Share Unit plan. To the date of this MD&A, no further stock options or units have been issued.

Industry Indicators and Market Trends

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.

| | 2021 | | 2020 | | | | 2019 | |
|---|-------|------|------|------|-------|-------|-------|------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Oil and natural gas prices | | | | | | | | |
| (\$ Average for each the period): | | | | | | | | |
| West Texas Intermediate ("WTI") (USD \$/bbl) ⁽¹⁾ | 58 | 39 | 41 | 28 | 46 | 57 | 56 | 55 |
| West Canada Select ("WCS") (CAD \$/bbl) ⁽¹⁾ | 57 | 36 | 42 | 22 | 34 | 54 | 58 | 55 |
| Canadian Light Sweet Oil ("CLS") (CAD \$/bbl) ⁽¹⁾ | 69 | 45 | 49 | 31 | 52 | 67 | 69 | 64 |
| AECO (CAD \$/MMbtu) ⁽¹⁾ | 3.13 | 2.65 | 2.27 | 2.00 | 2.03 | 2.48 | 1.00 | 0.61 |
| Other industry indicators: | | | | | | | | |
| Total wells drilled in W. Canada ⁽²⁾ | 1,178 | 719 | 361 | 746 | 1,179 | 1,175 | 1,407 | 778 |
| Avg service rig utilization rates ⁽²⁾ | 39% | 31% | 22% | 10% | 38% | 38% | 37% | 31% |
| Avg drilling rig utilization rates ⁽²⁾ | 27% | 16% | 9% | 4% | 35% | 23% | 23% | 13% |

(1) Source: Sproule

(2) Source: wells drilled PSAC; utilization rates CAODC

In Q1-2021, WTI, WCS and CLS average prices have rebounded to pre-pandemic 2019 levels or better.

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, drawdowns on previously substantively full storage facilities, a cold northern winter, rising LNG demand in Asia, vaccine rollouts in the US 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 combined with lower Exploration and Production company investment confidence, continues to collectively curtail activity relative to historical industry activity levels. Q1-2021 average industry rig utilization rates remained lower than Q1-2020, despite the rebound in commodity prices. With the change in government in the US, the future support and direction of the oil and gas industry is 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, and the attempts to shut down Enbridge Line 5 in Michigan, US.

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.

| (\$) | 2021 | | 2020 | | | | 2019 | |
|---|------|------|------|-------|------|-------|-------|------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Oil and natural gas prices | | | | | | | | |
| (Averages for each period): | | | | | | | | |
| Brent Crude Oil (USD \$/bbl) ⁽¹⁾ | 61 | 45 | 43 | 33 | 51 | 63 | 62 | 63 |
| Japan LNG (USD \$/mmbtu) ⁽²⁾ | 9.60 | 6.65 | 6.82 | 10.07 | 9.91 | 10.04 | 10.62 | 9.91 |
| USD/CAD exchange rate ⁽¹⁾ | 1.27 | 1.30 | 1.33 | 1.38 | 1.34 | 1.32 | 1.32 | 1.31 |

(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.

During Q1-2021, both Brent Crude Oil and Japan LNG have continued to climb with the key international oil index breaching USD \$65/bbl and stabilising in the \$60 - \$65 range through to the date of this MD&A. Japan LNG pushed through \$10/mmbtu and spot Asian LNG cargo prices in January 2021 reaching unprecedented levels over \$30/mmbtu before settling back to trend through March and April 2021.

Financial Instruments and 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 ongoing developments 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 its long-term debt is a floating rate credit facility and fluctuates in response to changes in the lender's 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, transitional 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 Corporation has exposure to US dollar ("USD") fluctuations and other currencies such as the PNG Kina ("PGK") through its international operations. As a result, the Corporation is exposed to foreign exchange gains and losses through the settlement of foreign currency denominated transactions, which is recorded in

net earnings (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 shareholders' equity.

The majority of the Corporation's international revenue and expenses are effectively transacted in USD and the Corporation does not currently hedge its foreign exchange transactions or exposure. For the three-month period ended March 31, 2021, a \$0.10 change in the exchange rate of the Canadian dollar relative to the USD would have resulted in a change in net loss amounting to \$0.2 million as a result of changes in foreign exchange.

The average CAD to USD exchange rate for the Quarter was \$1.27 vs \$1.34 during Q1-2020. As at March 31, 2021, the CAD to USD exchange rate was \$1.26 vs. \$1.27 as at December 31, 2020.

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 March 31, 2021 USD \$0.4 million (December 31, 2020 – USD \$0.9 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 March 31, 2021:

| (\$ millions) | USD ⁽¹⁾ | PGK ⁽²⁾ | Australian Dollars ("AUD") ⁽³⁾ |
|--|--------------------|--------------------|---|
| Cash | 17.9 | 1.6 | 0.5 |
| Accounts receivable | 0.4 | 1.4 | - |
| Accounts payable and accrued liabilities | (0.5) | (2.5) | (0.2) |
| Total – Canadian Dollars | 17.8 | 0.5 | 0.3 |

(1) As at March 31, 2021, one USD was equivalent to 1.26 CAD.

(2) As at March 31, 2021, one PGK was equivalent to 0.36 CAD.

(3) As at March 31, 2021, one AUD was equivalent to 0.96 CAD.

Credit Risk

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

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

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

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 four large multinational/regional customers which individually accounted for greater than 10% of its consolidated revenues during

the three-month period ended March 31, 2021 (March 31, 2020 – two customers). Sales to these four customers were approximately \$4.2 million, \$2.4 million, \$2.3 million, and \$2.1 million, respectively, for the three-month period ended March 31, 2021 (three-month period ended March 31, 2020 – two customers, with revenue of \$11.8 million and \$5.7 million, respectively). As at March 31, 2021, these four customers represented a total of \$7.8 million or 51% of outstanding accounts receivable (December 31, 2020 – two customers represented a total of \$2.2 million or 17% of outstanding accounts receivable).

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

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

| (\$ millions) | As at | |
|--------------------------------------|----------------|-------------------|
| | March 31, 2021 | December 31, 2020 |
| Days outstanding: | | |
| Less than 31 days | 10.0 | 8.1 |
| 31 to 60 days | 4.5 | 3.1 |
| 61 to 90 days | 0.6 | 1.2 |
| Greater than 90 days | 0.9 | 1.3 |
| Provision for expected credit losses | (0.7) | (0.8) |
| Total | 15.3 | 12.9 |

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 with 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 \$45.0 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 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 commodity price recovery trend is encouraging, a continuing focus on supply balance for oil and gas producers is warranted, and 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 on ESG and addressing 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 efforts to inoculate large portions of the global population, the speed and efficacy of vaccine distribution, government and health agency response to vaccine complications, 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.

Transactions with Related Parties

During the three months ended March 31, 2021, the Corporation made a donation of \$25 thousand (Q1 -2020 - \$Nil) to an organization where one of High Arctic Board members is also a Director of the organization to which the donation was made.

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

As at March 31, 2021, an evaluation of the effectiveness of High Arctic's DC&P as defined under the rules adopted by the Canadian securities regulatory authorities was carried out under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that as at March 31, 2021, 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 reasonable assurance with respect to the preparation and fair presentation of published financial statements. Under the supervision and with the participation of the CEO and CFO, management conducted an evaluation of the effectiveness of its ICFR as at March 31, 2021.

Based on this evaluation, the CEO and CFO concluded that as at March 31, 2021, High Arctic's ICFR was effective. The Internal Control – Integrated Framework (2013) as issued by the Committee of Sponsoring Organizations of the

Treadway Commission was utilized for this purpose. As at March 31, 2021 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, without charge, from the Corporation.

Non-IFRS Measures

This MD&A contains references to certain financial measures that do not have a standardized meaning prescribed by IFRS and may not be comparable to the same or similar measures used by other companies. High Arctic uses these financial measures to assess performance and believes these measures provide useful supplemental information to shareholders and investors.

These financial measures are computed on a consistent basis for each reporting period and include the following:

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

Management believes that, in addition to net earnings (loss) reported in the interim condensed consolidated statements of loss and comprehensive income (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 (loss) calculated in accordance with IFRS. Note that EBITDA is inclusive of government wage subsidies (CEWS) and rental subsidies recorded.

Adjusted EBITDA

Adjusted EBITDA is calculated based on EBITDA (as defined to above) prior to the effect of share-based compensation, gains or losses on sales or purchases of assets or investments, business acquisition costs, 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 government wage subsidies (CEWS) and rental subsidies.

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 (loss) to EBITDA and Adjusted EBITDA for the three months ended March 31, 2021 and 2020:

| (\$ millions) | Three months ended March 31 | |
|--|-----------------------------|-------|
| | 2021 | 2020 |
| Net loss | (5.2) | (2.2) |
| Add: | | |
| Interest and finance expense | 0.2 | 0.3 |
| Income tax (recovery) expense | (0.7) | 0.1 |
| Depreciation | 6.9 | 7.3 |
| EBITDA | 1.2 | 5.5 |
| Adjustments to EBITDA: | | |
| Share-based compensation | 0.1 | 0.1 |
| Gain on sale of property and equipment | (0.5) | (2.8) |
| Foreign exchange gain | - | (0.1) |
| Adjusted EBITDA | 0.8 | 2.7 |

EBITDA for purposes of long-term debt covenants

EBITDA, as defined in High Arctic's credit facility agreement, is used in determining the Corporation's compliance with its covenants. 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 EBITDA for long-term debt is inclusive of CEWS and rental subsidies recorded.

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, and gains and transaction costs incurred for acquisitions. Management utilizes Adjusted net earnings (loss) to present a measure of financial performance that provides for better comparability. Adjusted net earnings (loss) as presented is not intended to represent net earnings (loss) or other measures of financial performance calculated in accordance with IFRS.

Adjusted net earnings (loss) per share and Adjusted net earnings (loss) per share – diluted are calculated as Adjusted net earnings (loss) divided by the number of weighted average basic and diluted shares outstanding, respectively. For the three months ended March 31, 2021 and 2020, net loss was the same as adjusted net loss of \$5.2 million and \$2.2 million, respectively.

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 %:

| Three months ended March 31 | | |
|---------------------------------------|-------|-------|
| (\$ millions, unless otherwise noted) | 2021 | 2020 |
| Revenue | 17.8 | 39.6 |
| Less: | | |
| Oilfield services expense | 14.5 | 32.3 |
| Oilfield services operating margin | 3.3 | 7.3 |
| Oilfield services operating margin % | 18.5% | 18.4% |

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

This measure is not intended to represent cash generated from (used in) 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 ended March 31, 2021 and 2020:

| | Three months ended March 31 | |
|--|-----------------------------|------------|
| (\$ millions) | 2021 | 2020 |
| Cash flows from (used in) operating activities | (1.3) | 8.6 |
| Adjust for: | | |
| Changes in operating non-cash working capital balances | 1.7 | (6.6) |
| Funds provided from operations | 0.4 | 2.0 |

Working capital

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

| | As at | |
|------------------------|----------------|-------------------|
| (\$ millions) | March 31, 2021 | December 31, 2020 |
| Current assets | 46.2 | 55.8 |
| Less: | | |
| Current liabilities | (11.5) | (11.0) |
| Working capital | 34.7 | 44.8 |

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:

| | As at | |
|-----------------|----------------|-------------------|
| (\$ millions) | March 31, 2021 | December 31, 2020 |
| Cash | 21.0 | 32.6 |
| Less: | | |
| Long-term debt | - | (10.0) |
| Net cash | 21.0 | 22.6 |

Forward-Looking Statements

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

Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this MD&A include, among others, statements pertaining to the following: general economic and business conditions which will, among other things, impact demand for and market prices for the Corporation’s services; expectations regarding the Corporation’s ability to raise capital and manage its debt obligations; commodity prices and the impact that they have on industry activity; increases in demand for our services; improved interest in our services; a modest return to work later in 2021 as COVID-19 prevention strategies taking hold; relaxation of social and economic restrictions; travel restrictions lessening and business activities increasing; improvement in business and travel confidence; more meaningful activity increases in the medium to longer term; continued safety performance excellence; oversight of working capital to maintain a strong balance sheet; plans to identify industry partners to further test the technology at a pilot site in 2021; estimated capital expenditure programs for fiscal 2021 and subsequent periods; projections of market prices and costs; factors upon which the Corporation will decide whether or not to undertake a specific course of operational action or expansion; the Corporation’s ongoing relationship with major customers; treatment under governmental regulatory regimes and

political uncertainty and civil unrest; a final Papua LNG investment decision in 2023; the Corporation's ability to maintain a USD bank account and conduct its business in USD in PNG; and the Corporation's ability to repatriate excess funds from PNG as approval is received from the Bank of PNG and the PNG Internal Revenue Commission.

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

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

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

Abbreviations

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

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