HIGH ARCTIC ENERGY SERVICES

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED
June 30, 2021 and 2020

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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 August 12, 2021 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes for the three and six months ended June 30, 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 August 12, 2021. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts are expressed in thousands of Canadian dollars ("**CAD**"), unless otherwise noted.

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 under the "Non-IFRS Measures" section of this MD&A.

Corporate Profile

Headquartered in Calgary, Alberta, Canada, High Arctic primarily provides oilfield services to oil and gas exploration and production companies operating in Canada, Papua New Guinea ("**PNG**"), and the United States ("**US**") where operations have been idled. 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 Well Services Limited Partnership ("**Seh' Chene**" or "**Partnership**") with the Saa Dene Group of northern Alberta being the majority participant in a 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 activities 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.

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.

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 June 30, 2021 may be referred to as the "**Quarter**" or "**Q2-2021**", and similarly the six months ended June 30, 2021 may be referred to as "**YTD-2021**". The comparative three months ended June 30, 2020 may be referred to as "**Q2-2020**", and similarly the six months ended June 30, 2020 may be referred to as "**YTD-2020**". References to other quarters may be presented as "**QX-20XX**" with X being the quarter/year to which the commentary relates. All amounts are expressed in thousands of Canadian dollars, unless otherwise noted.

Q2-2021 and YTD-2021 Highlights

- Consolidated Q2-2021 revenues of $16,377 were slightly higher as compared to Q2-2020 revenues of $16,109. This 2% improvement is primarily due to Canada service rig operating hours increasing by 32% in High Arctic's Production Services segment, offset by an 83% decline in Drilling Services revenue in PNG where operations were suspended due to Covid-19 restriction.
- YTD-2021 revenues of $34,144 were 39%, lower compared to YTD-2020 revenues of $55,721, primarily due to a 91%, or $17,485, reduction due to no drilling operations taking place in PNG and minimal associated drilling services, a 9% decline in Production Services revenues in Canada and a 22% decline in Ancillary Services revenues.
- Oilfield services operating margins as a percentage of revenue were 20% during Q2-2021 compared to 26.5%during Q2-2020. Operating margins remained relatively consistent on a year-to-date basis at 19.4% for YTD-2021 compared to 20.8% for YTD-2020.
- The Corporation generated EBITDA of $752 and $1,960 during Q2-2021 and YTD-2021, respectively, which helped to fund capital expenditures of $685 and $1,450 during these periods, respectively.
- The restructuring and cost reduction initiatives undertaken by management throughout the 2020-year led to a 35% ($2,725) decline in general and administrative costs during the first six months of 2021.
- Balance sheet and liquidity remain strong at June 30, 2021 with cash of $21,728, positive working capital of $34,023, an undrawn revolving loan facility and no long-term debt outstanding.
- In July of 2021, the Corporation announced several key developments:
  - Agreement to terms with a major multi-national customer in PNG to provide drilling services in the second half of 2021 for the abandonment of a complex legacy exploration well with the Corporation's heli-portable drilling rig 115.
  - Receipt of notice from our longest-standing customer in PNG of their intent to exercise an option to extend the existing drilling services contracts to August 2022.
  - The purchase of 17 modern hydraulic catwalks currently deployed with an existing High Arctic customer in Cold Lake, Alberta for $1,100. As part of the transaction, High Arctic and the vendor will equally share revenue from July to December 2021 while the catwalks are sequentially upgraded to latest specification, safety controls and mobility. High Arctic will assume full control of all assets and all revenues on January 1, 2022.

Select Comparative Financial Information

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

($ thousands, except per share amounts)	For the three months ended June 30 2021	2020	For the six months ended June 30 2021	2020
Revenue	**16,377**	16,109	**34,144**	55,721
Net loss	**(4,018)**	(6,145)	**(9,215)**	(8,310)
Per share (basic and diluted) (2)	**(0.08)**	(0.12)	**(0.19)**	(0.17)
Oilfield services operating margin (1)	**3,268**	4,273	**6,630**	11,584
Oilfield services operating margin as a % of revenue (1)	***20.0%***	*26.5%*	***19.4%***	*20.8%*
EBITDA (1)	**752**	1,342	**1,960**	6,812
Adjusted EBITDA (1)	**796**	1,147	**1,670**	3,899
Adjusted EBITDA as % of revenue (1)	***4.9%***	*7.1%*	***4.9%***	*7.0%*
Operating loss	**(4,106)**	(6,350)	**(10,251)**	(11,000)
Cash provided by operating activities	**2,023**	7,678	**938**	16,571
Per share (basic and diluted) (2)	**0.04**	0.15	**0.02**	0.33
Funds provided by operating activities (1)	**640**	871	**1,230**	3,104
Per share (basic and diluted) (2)	**0.01**	0.02	**0.03**	0.06
Dividends	**-**	-	**-**	1,638
Per share (basic and diluted) (2)	**-**	-	**-**	0.03
Capital expenditures	**685**	1,303	**1,450**	3,234

($ thousands, except share amounts)	As at June 30, 2021	December 31, 2020
Working capital (1)	**34,023**	44,577
Cash, end of period	**21,728**	32,598
Total assets	**191,939**	214,159
Long-term debt	**--**	10,000
Long-term financial liabilities, excluding long-term debt	**7,552**	7,782
Shareholders' equity	**166,152**	177,221
Per share (basic and diluted) (2)	**3.41**	3.57
Common shares outstanding, thousands	**48,812**	48,760

(1) Readers are cautioned that Oilfield services operating margin, EBITDA (Earnings before interest, tax, depreciation and amortization), Adjusted EBITDA, Funds provided by operating activities, certain figures as a percentage of revenue, and working capital do not have standardized meanings prescribed by IFRS – see "Non IFRS Measures" section of this MD&A for calculations of these measures.

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

Outlook

The outlook for the energy services sector continues to improve following the Q1 rally in oil and gas prices which has been sustained above pre-pandemic levels through the second quarter. Utilization of High Arctic's services in Canada has exceeded our expectations for the second quarter during which demand tends to soften due to the seasonal spring breakup. Canadian well servicing hours in our Production Services segment were within 8% of those experienced in Q1, and both the Nitrogen service-line and Rentals in Canada from within our Ancillary Services segment increased revenues over the first quarter.

Near term activity across High Arctic's three operating segments in both Canada and PNG are expected to increase given the improving and stabilizing economic environment. We expect our customers, now buoyed by high commodity prices and improved balance sheets, to increase their activity to boost production.

In Papua New Guinea High Arctic has been recently awarded well abandonment work and started preparations for the mobilization of Rig 115, heli-transportable camps and associated support equipment to commence work on a remote exploration well abandonment in Q4 this year. The location of the work site positions the rig well for additional work on exploration commitment wells in nearby licence blocks. Routine maintenance and servicing activities on rigs 103 and 104, currently stacked in the highlands, continued through the drilling cessation to ensure these rigs are ready for deployment when called upon. We remain optimistic of more meaningful activity increases in the medium to longer term in PNG.

Throughout this recent severe trough, the Company set a strategic focus on quality of people, systems, and productivity to strengthen underlying service processes to customers. As High Arctic's business activity in Canada continues to recover, operating cash flow has returned to breakeven to slightly positive overall. As service demand increases, there is a need for higher prices to restore profit margins and a return on shareholder's equity.

Optimising operational and environmental efficiencies within High Arctic and for our customers remains paramount. High Arctic has further advanced contract dialogue with select customers on possible field trial locations for our electric drive service rig design, which has a patent pending. We see tremendous opportunity for the deployment of this technology in Western Canada. The service rig upgrade is estimated to significantly reduce Co2 emissions while operating over the wellbore by displacing diesel fuel power. Customer economics, we believe, are compelling with broad market opportunity in certain well-established oil fields.

Automated service rig pipe handling is also an optimization focus and in July High Arctic announced investment in highly mobile, automated tubular handling catwalk machines. We are confident of the value that this investment will bring to our customers as well as our investors. We continue to actively explore opportunities to make investments or acquisitions that strengthen our service base and enhance shareholder value.

In Canada, Covid-19 vaccination rates reached world leading levels in July and consequently the reported new covid cases and serious hospitalizations dropped to levels that have allowed for the relaxation of many government imposed social and economic restrictions. In PNG, the spike in Covid-19 cases observed in April that saw travel bans imposed, has receded and major corporations have begun returning personnel to work. However there remains uncertainty from the possible ongoing impacts of Covid-19, and in particular the rising case numbers of the delta variant. Recent positive steps taken by governments within Canada and around the world towards re-opening economies may moderate or reverse course and, in the process, may impair the current favourable outlook.

High Arctic was eligible for various government subsidies during YTD-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.

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;
- Investment initiatives 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 reside 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

Second Quarter 2021 Summary:

- High Arctic reported revenue of $16,377, incurred a net loss of $4,018 and realized Adjusted EBITDA of $796 during Q2-2021. This compares with revenue of $16,109, a net loss of $6,145 and Adjusted EBITDA of $1,147 during Q2-2020.
- Oilfield services operating margin decreased to $3,268 in the Quarter from $4,273 in Q2-2020. In the Quarter, High Arctic experienced a loss of $4 (Q2-2020: $1,489) in its Drilling Services segment operating margin due to suspension of drilling activity in PNG. In contrast, the Production Services and Ancillary Services segments recorded operating margins of $2,189 (Q2-2020: $2,210) and $1,083 (Q2-2020: $574), respectively.
- The CEWS provided $944 in wage subsidy relief in the Quarter, of which $848 offset oilfield services expenses and $96 offset general and administrative expenses. During Q2-2020, $2,132 of CEWS was received with $1,802 offset against oilfield services expenses and $330 offset general and administrative expenses.
- Utilization for High Arctic's 49 registered Concord Well Servicing rigs was 44% in the Quarter versus industry utilization of 29% (source: Canadian Association of Oilwell Energy Contractors "**CAOEC**").
- Q2-2021 depreciation and amortization was adjusted down by $511 to correct an over determination of this estimate recorded in Q1-2021.
- Cash increased by $711 during the Quarter to $21,728.

Year to Date June 30, 2021 Summary

- High Arctic reported revenue of $34,144, incurred a net loss of $9,215 and realized Adjusted EBITDA of $1,670 during YTD-2021. This compares with revenues of $55,721, a net loss of $8,310 and Adjusted EBITDA of $3,899 during YTD-2020.
- Revenue declined by $21,577 primarily attributable to the ongoing suspension of drilling activity in PNG, down $17,485, and the US Segment being inactive (starting in Q3-2020) resulting in YTD-2021 revenues being $2,240 lower compared to the prior year period.
- The restructuring and cost reduction initiatives undertaken by management throughout the 2020-year led to a 35% ($2,725) decline in general and administrative costs during the first six months of 2021.
- Oilfield services operating margin decreased from $11,584 in YTD-2020 to $6,630 in YTD-2021. In the period, High Arctic experienced an operating loss of $85 in its Drilling Services segment ($4,685 operating margin in YTD-2020) due to suspension of drilling activity in PNG, in contrast the Production Services and Ancillary Services segments recorded operating margins of $4,607 ($3,733 in YTD-2020) and $2,108 ($3,166 in YTD-2020), respectively.
- Utilization for High Arctic's 49 registered Concord Well Servicing rigs was 46% YTD-2021 versus industry utilization of 34% (source: Canadian Association of Oilwell Energy Contractors "**CAOEC**").
- Cash decreased by $10,870 YTD-2021 primarily as a result of the repayment of $10,000 of long-term debt from cash on hand. No amount is drawn under this revolving loan facility as of the date of this MD&A.
- No dividends were paid in YTD-2021, compared to $1,638 paid during YTD-2020. High Arctic suspended its monthly dividend in March 2020.
- High Arctic has not repurchased any shares under the NCIB in place 2021.

Operating Results

Drilling Services Segment

($ thousands, unless otherwise noted)	Three months ended June 30 2021	2020	Six months ended June 30 2021	2020
Revenue	**$ 893**	$ 5,197	**$ 1,644**	$ 19,129
Oilfield services expense	**897**	3,708	**1,729**	14,444
Oilfield services operating margin (1)	**$ (4)**	$ 1,489	**$ (85)**	$ 4,685
Operating margin (%)	***(0.4%)***	*28.7%*	***(5.2%)***	*24.5%*

(1) See “Non-IFRS Measures” section of this MD&A.

Drilling Services revenues in PNG for the three-month period ended June 30, 2021 were $893, a decrease of 83%, relative to $5,197 revenues in Q2-2020. Lower Q2-2021 revenues resulted from the cessation of drilling services in PNG and deferral of non-essential work by customers. Covid-19 related work stoppages also negatively impacted oilfield services operating margin as certain fixed costs were unable to be eliminated in conjunction with the lower level of operations. As a result, the Drilling Services Segment operated at close to breakeven during Q2-2021 while seeing operating margins of 28.7% or $1,489 during Q2-2020.

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 the 2021-periods, Rigs 103, 104, 115 and 116 all remained cold stacked, whereas during Q1-2020, Rig 103 was operational.

Production Services Segment

($ thousands, unless otherwise noted)	Three months ended June 30 2021	2020	Six months ended June 30 2021	2020
Revenue	**$ 13,328**	$ 9,552	**$ 28,703**	$ 31,389
Oilfield services expense	**11,139**	7,342	**24,096**	27,656
Oilfield services operating margin (1)	**$ 2,189**	$ 2,210	**$ 4,607**	$ 3,733
Operating margin (%)	***16.4%***	*23.1%*	***16.1%***	*11.9%*

(1) See “Non-IFRS Measures” section of this MD&A.

Operating Statistics - Canada	Three months ended June 30 2021	2020	Six months ended June 30 2021	2020
Service rigs:				
Average fleet (2)	**49**	50	**49**	51
Utilization (3)	**44%**	32%	**46%**	46%
Operating hours	**19,469**	14,759	**40,589**	41,657
Revenue per hour ($)	**582**	556	**591**	599
Snubbing packages:				
Average fleet (4)	**8**	8	**8**	9
Utilization (3)	**19%**	8%	**24%**	20%
Operating hours	**1,400**	574	**3,409**	3,129

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

Overall

Well servicing and snubbing revenues rose by $3,104 and $1,337, respectively, as compared to Q2-2020. Higher revenues for Production Services in Q2-2021 relate to improved operating hours and fleet utilization in the period, relative to Q2-2020. These increases were partially offset by lower US revenues of $666 in Q2-2021, as compared to Q2-2020.

Production Services segment operating margin percentage decreased from 23.1% in Q2-2020 to 16.4% in Q2-2021. Lower operating margin percentage in the Quarter is primarily due to $954 of lower wage subsidies received compared to Q2-2020, partially offset by higher contribution from snubbing operations.

YTD-2021, revenues declined by 9% mainly due to $2,240 lower revenues in the US segment. In contrast, operating margins rose from 11.9% in the six-months period ended June 30, 2020, to 16.1% in YTD-2021. Higher margins in 2021 are primarily attributable to the suspension of operations in the USA and cost reduction measures.

Service Rigs

Servicing rig utilization rates rose in Q2-2021 to 44% as compared to 32% in Q2-2020, driven by higher operating hours as the traditional Q2 break-up period in Canada was earlier and shorter than prior years. For the three-month period ended June 30, 2021, service rig operating hours were up 32% as compared to Q2-2020. Pricing continues to recover towards pre-pandemic levels with revenue per hour for the Concord service rigs in Canada increasing 5% over Q2-2020.

For the six-month period ended June 30, 2021, operating hours and utilization rates were essentially flat to the corresponding 2020-period and revenue per hour YTD-2021 was slightly lower relative to YTD-2020 which included a quarter of pre-pandemic rates and activity.

Snubbing packages

Since the market lows of April 2020, snubbing operating hours saw a significant 144% increase to 1,400 hours in Q2-2021 from 574 operating hours in Q2-2020, driving utilization rates up to 19% in Q2-2021 from 8% in Q2-2020. Snubbing activity was consistent through spring-break up in Canada as gas well completion work was prioritized by customers due to strong gas prices and demand.

YTD-2021, snubbing operating hours and utilization rates were 3,409 hours and 24%, respectively, which are slightly higher compared to 3,129 hours and 20% in YTD-2020 despite YTD-2020 including a quarter of pre-pandemic activity.

US geographic segment

Due to persistent poor market conditions, High Arctic made the decision in Q3-2020 to idle its operations in North Dakota and Colorado where it has 2 service rigs and 6 snubbing packages. There have been no service rig hours or snubbing package hours in the US during 2021.

Ancillary Services Segment

	Three months ended June 30		Six months ended June 30	
($ thousands, unless otherwise noted)	**2021**	2020	**2021**	2020
Revenue	**$ 2,572**	$ 1,594	**$ 4,768**	$ 6,085
Oilfield services expense	**1,489**	1,020	**2,660**	2,919
Oilfield services operating margin (1)	**$ 1,083**	$ 574	**$ 2,108**	$ 3,166
Operating margin (%)	***42.1%***	*36.0%*	***44.2%***	*52.0%*

(1) See "Non-IFRS Measures" section of this MD&A.

High Arctic's oilfield rental equipment in Canada and PNG, as well as its Canadian nitrogen operations are provided through its Ancillary Services segment.

For the three-month period ended June 30, 2021, Ancillary Services revenues and operating margin increased 61% and 89%, respectively, over the prior year periods. Higher revenues and profitability in the Quarter are primarily due to higher demand for rental and nitrogen service-line activity in Canada. In additional, strong cost controls improved High Arctic's nitrogen service-line operating margins, as compared to Q2-2020.

For the six-month period ended June 30, 2021, Ancillary Services revenues and operating margin decreased 22% and 33% respectively as compared to YTD-2020, which is reflective of the impact of Covid-19 and the lack of activity in PNG since Q2-2020.

General and Administrative ("G&A")

($ thousands, unless otherwise noted)	Three months ended June 30 2021		2020	Six months ended June 30 2021		2020
G&A	**2,472**	$	3,126	**4,960**	$	7,685
% of revenue	***15.1%***		*19.4%*	***14.5%***		*13.8%*

For the three and six-month periods ended June 30, 2021, G&A costs decreased 20.9% and 35.4%, respectively, as compared to Q2-2020 and YTD-2020. The decrease in G&A costs in both periods is mainly due to lower compensation costs as a result of reduced management and administrative personnel in the organization compared to 2020, and a higher provision for expected credit losses recorded in the 2020-periods relating to higher credit risk associated with the oil and gas industry due to the effects of both the Covid-19 pandemic and the oil price crisis.

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 $4,834 in Q2-2021, and $11,758 for YTD-2021, compared to $7,515 and $14,823 for Q2-2020 and YTD-2020, respectively. Lower depreciation in the 2021 periods is reflective of certain property and equipment being fully depreciated in the 2020-year. In addition, during Q2-2021, $511 was recorded as a reduction in depreciation correcting an overestimate of depreciation recorded in Q1-2021.

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 recognition methodology used typically front end loads the expense in the early period of the expense realization, with reductions being recorded when significant cancellations or unanticipated forfeitures take place. During the Quarter, share-based compensation amounted to $68 and YTD-2021 was $163, compared to an $18 recovery in Q2-2020 and $76 expense for YTD-2020. Higher expenses in the 2021-periods primarily relate to new stock options and PSU grants in Q2-2021 and improvement in the trading price of the Corporation's common shares.

Interest and Finance Expense

($ thousands)		Three months ended June 30 2021		2020		Six months ended June 30 2021		2020
Interest on facility and standby fees	**$**	**51**	$	189	**$**	**150**	$	204
Finance expense – lease liabilities		**98**		115		**199**		234
Other		**(3)**		54		**13**		146
Total	**$**	**146**	$	358	**$**	**362**	$	584

The Corporation fully repaid cash drawn from its revolving loan facility in March 2021 and therefore Q2-2021 expense was limited to standby fees and related administrative expense associated with the facility.

Finance expense on lease liabilities associated with the time value of money of $98 was recorded during the Quarter and $199 was recorded YTD-2021 (Q2-2020: $115 and YTD-2020: $234), as the liability is initially recorded at its present value.

Income Taxes

($ thousands, unless otherwise noted)	Three months ended June 30 2021	2020	Six months ended June 30 2021	2020
Loss before income taxes	**$ (4,228)**	$ (6,531)	**$ (10,160)**	$ (8,595)
Current income tax expense	**(108)**	(33)	**(277)**	(445)
Deferred income tax recovery	**318**	419	**1,222**	730
Total income tax	**210**	386	**945**	285
Effective tax rate	***(5.0%)***	*(5.9%)*	***(9.3%)***	*(3.3%)*

The Corporation's effective tax rate for the three and six-month periods ended June 30, 2021 was (5.0%) and (9.3%), respectively. Tax rates in the 2021 were impacted by withholding taxes paid in PNG and a decrease in the deferred tax liability due to non-capital losses in PNG. Tax rates were also impacted by unrecognized deferred tax assets with respect to deductible temporary differences in Canada.

Other Comprehensive Income (Loss)

The Corporation recorded a $1,081 foreign currency translation loss in other comprehensive loss for the Quarter (Q2-2020: $3,927) associated with subsidiaries with functional currencies other than CAD. Similarly, the Corporation recorded a $2,017 foreign currency translation loss for YTD-2021 (YTD 2020: $4,588 foreign currency translation gain). Losses in both 2021-periods occurred due to the strengthening of the CAD compared to the USD in the respective periods.

Summary of Quarterly Results

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

	2021		2020				2019	
($ thousands, except per share)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Revenue	**16,377**	17,767	16,584	18,529	16,109	39,612	42,883	49,584
Adjusted EBITDA (1)(2)	**796**	874	1,154	3,476	1,147	2,752	3,593	6,633
Net loss	**(4,018)**	(5,198)	(11,468)	(6,079)	(6,145)	(2,165)	(2,796)	(953)
Per share – basic and diluted	***(0.08)***	*(0.11)*	*(0.23)*	*(0.12)*	*(0.13)*	*(0.04)*	*(0.06)*	*(0.02)*
Adjusted net loss(1)(2)	**(4,018)**	(5,198)	(11,468)	(6,079)	(6,145)	(2,165)	(2,796)	(953)
Per share – basic and diluted	***(0.08)***	*(0.11)*	*(0.23)*	*(0.12)*	*(0.13)*	*(0.04)*	*(0.05)*	*(0.02)*
Cash provided by (used in) operating activities	***2,023***	(1,085)	2,389	1,192	7,678	8,893	1,214	2,764
Funds provided by operations (1)	**640**	590	859	2,357	871	2,233	3,114	5,464

(1) See “Non-IFRS Measures” section of this MD&A.
(2) Adjusted net loss and adjusted EBITDA includes the impact of CEWS and rent subsidies recorded during 2021 and 2020.

Revenue increased year-over-year by 2% in Q2-2021 as compared to Q2-2020 revenues as the Canadian spring break-up was less disruptive than usual. Covid-19 pandemic constraints continue to impact High Arctic operations in 2021, which began late in Q1-2020 resulting in the prolonged suspension of drilling activity in PNG that continues to date of this MD&A. Due to the global economic downturn in the prior year, management undertook a restructuring process to control costs to address the reduction to revenues and operating cash flows. During the pandemic the Corporation’s activity and pricing has been significantly impacted by the global supply and demand imbalance of oil and natural gas. During 2021, as pandemic restrictions are being lifted in many locations, oil and gas prices have rebounded. High Arctic’s outlook is encouraged by the recovery, but outbreaks of Covid-19 variants and other headwinds persist such as Canadian oil and gas industry’s inability to obtain global market access for its products 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

($ thousands)	**Three months ended June 30** **2021**		2020	**Six months ended June 30** **2021**		2020
Cash provided by (used in):						
Operating activities	**2,023**	$	7,678	**938**	$	16,571
Investing activities	**(752)**		(1,290)	**(659)**		442
Financing activities	**(384)**		(487)	**(10,792)**		6,549
Effect of exchange rate changes on cash	**(176)**		(722)	**(357)**		637
Increase (decrease) in cash	**711**	$	5,179	**(10,870)**	$	24,199

($ thousands, unless otherwise noted)	**As at** **June 30, 2021**	December 31, 2020
Working capital [(1)]	**34,023**	44,577
Working capital ratio [(1)]	***4.0 : 1***	*5.0 : 1*
Net cash [(1)]	**21,728**	22,598
Undrawn availability under debt facilities	**45,000**	35,000

(1) See "Non-IFRS Measures" section of this MD&A.

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

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

Operating Activities

Cash from operating activities were $2,023 for the Quarter (Q2-2020: $7,678) of which $640 are funds provided by operations ($871 in Q2-2020) and $1,383 cash inflow from working capital changes (Q2-2020: $6,807), mainly due to the collection of accounts receivable during the Quarter.

YTD-2021 cash provided by operations of $938 (YTD-2020: $16,571) of which $1,230 are funds provided by operations (Q2-2020: $3,104), less $292 cash outflow from working capital changes (YTD:2020: $13,467 cash inflow) predominantly due to increased prepaid expenses in the 2021-period.

Investing Activities

During the Quarter, the Corporation's cash used in investing activities amounted to $752 (Q2-2020: $1,290). Capital expenditures during the Quarter of $685 (Q2-2020: $1,303) were partially offset by proceeds on disposal of $260 (Q2-2020: $138). The balance of the change related to working capital balance changes for capital items.

YTD-2021 cash used in investing activities totalled $659 (YTD-2020: $442 cash from investing activities). YTD-2021 capital expenditures amounted to $1,450 (YTD-2020: $3,234), proceeds of disposal were $831 (YTD-2020: $4,908), with working capital changes representing the balance of the change.

Financing Activities

During March 2021, the Corporation repaid the $10,000 amount outstanding on its $45,000 revolving loan facility from December 31, 2020. The Corporation did not draw further on its available revolving loan facility during the Quarter.

High Arctic suspended dividends in March 2020, and as such no dividends were paid during the YTD-2021 or Q2-2020.

Credit Facility

The Corporation has a $45,000 revolving loan 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.

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% depending on the level of principal outstanding; the higher the ratio the higher the margin. Standby fees also fluctuate based on the Funded Debt to EBITDA ratio and range between 0.40% – 0.60% of the undrawn balance; the higher the ratio the higher the standby fee percentage.

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 less than 3.0 to 1 and the second covenant requires the 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 June 30, 2021, the Corporation was in compliance with these two financial 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. 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 and amortization, share-based compensation expense, and restructuring costs in the 2020-year, less gains from foreign exchange and sale or purchase of assets.

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 $7,081 at June 30, 2021 (December 31, 2020: $7,857) 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 units under the Corporation's approved equity compensation plans.

Common shares issued and outstanding:	Six-months ended June 30, 2021 Shares	Six-months ended June 30, 2021 Amount ($ thousands)	Year ended December 31, 2020 Shares	Year ended December 31, 2020 Amount ($ thousands)
Balance, beginning of period	48,759,660	169,220	49,623,432	173,070
Exercise of performance share units	52,289	310	273,328	99
Normal course issuer bid	-	-	(1,137,100)	(3,949)
Balance, end of period	**48,811,949**	**169,530**	**48,759,660**	**169,220**

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% 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.

The Corporation's previous NCIB commenced on December 2, 2019 and terminated on December 1, 2020. Pursuant to the previous NCIB, in total 1,137,100 common shares were purchased and cancelled.

As at June 30, 2021, there were 659,500 stock options outstanding at a weighted average exercise price of $2.01 as well as 641,032 units under the Corporation's Performance Share Unit Plan and 596,729 units under the Deferred Share Unit plan.

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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and natural gas prices								
($ Average for the period):								
West Texas Intermediate ("WTI") (USD $/bbl) (1)	66	58	39	41	28	46	57	56
West Canada Select ("WCS") (CAD $/bbl)(1)	67	57	36	42	22	34	54	58
Canadian Light Sweet Oil ("CLS") (CAD $/bbl) (1)	76	69	45	49	31	52	67	69
AECO (CAD $/MMbtu) (1)	3.07	3.13	2.65	2.27	2.00	2.03	2.48	1.00
Other industry indicators:								
Total wells drilled in W. Canada(2)	654	1,178	719	361	746	1,179	1,175	1,407
Avg service rig utilization rates(2)	29%	39%	31%	22%	10%	38%	38%	37%
Avg drilling rig utilization rates (2)	24%	27%	16%	9%	4%	35%	23%	23%

(1) Source: Sproule
(2) Source: wells drilled PSAC; utilization rates CAOEC

In Q2-2021, WTI, WCS and CLS average prices have rebounded to higher pricing relative to pre-pandemic 2019 levels.

The pricing changes from 2020 are the result of improvement in economic conditions since 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, measured increases in oil production from OPEC Plus (OPEC and ten of the world's major non-OPEC oil-exporting nations), global vaccine rollouts and, heading into Q2-2021, an improving world outlook for energy demand in line with the pandemic recovery outlook.

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. Q2-2021 average industry rig utilization rates have improved since Q2-2020. With the change in government in the US and coming national elections in Canada, 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.

In Q2-2021, the Federal Government passed the 2021 Federal Budget which includes extension of CEWS and Canada Emergency Rent Subsidy ("**CERS**") programs until September 25, 2021, which has since been extended to October 23, 2021 as of the date of this MD&A. The Canadian Federal Government continues to focus efforts to achieve net-zero greenhouse gas emissions by the year 2050, putting added incentives and pressure on the Oil and Gas industry in Canada to reduce emissions.

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	
($)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and natural gas prices								
(Averages for the quarterly periods):								
Brent Crude Oil (USD $/bbl) (1)	69	61	45	43	33	51	63	62
Japan LNG (USD $/mmbtu) (2)	8.75	9.60	6.65	6.82	10.07	9.91	10.04	10.62
USD/CAD average exchange rate (3)	1.23	1.27	1.30	1.33	1.38	1.34	1.32	1.32

(1) Source: Sproule
(2) Source: YCharts
(3) Source: Bank of Canada

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 declined in Q2-2021 which has negatively impacted 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 Q2-2021, Brent Crude Oil continued to climb breaching USD $70/bbl and stabilising in the $65 - $75 range in Q2-2021. Japan LNG prices continue to remain high in 2021 with prices spiking at the beginning of 2021 and since stabilising in the $8 - $9 range during Q2-2021.

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 the developments relating to Covid-19. 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 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.

Market risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market rates:

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. The Corporation had no risk management contracts that would be affected by interest rates in place at June 30, 2021.

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 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 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 the Corporation recognizes it 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.

The Corporation had no risk management contracts that would be affected by commodity prices in place at June 30, 2021.

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 actively engage in foreign currency hedging. For the three and six-months ended June 30, 2021, a $0.10 change in the exchange rate of the Canadian dollar relative to the USD would have resulted in a change to the net loss amounting to $145 and $373, respectively (June 30, 2020: $225 and $142, respectively).

The average CAD to USD exchange rate for the Quarter was $1.23 vs $1.38 during Q2-2020. As at June 30, 2021, the CAD to USD exchange rate was $1.24 versus $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 several 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 PGK.

As at June 30, 2021 USD $487 (December 31, 2020 – USD $894) 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 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 June 30, 2021:

(thousands)	USD (1)	PGK (2)	Australian Dollars ("**AUD**") (3)
Cash	14,150	2,117	206
Accounts receivable	392	3,386	8
Accounts payable and accrued liabilities	(2,174)	(1,053)	(356)
Total – Foreign Currency Balance	12,368	4,451	(142)

(1) As at June 30, 2021, one USD was equivalent to 1.2394 CAD.
(2) As at June 30, 2021, one PGK was equivalent to 0.3482 CAD.
(3) As at June 30, 2021, one AUD was equivalent to 0.9295 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 ("**ECL**"), 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 3 large multinational/regional customers who individually accounted for greater than 10% of its consolidated revenues during the three and six-months periods ended June 30, 2021 (June 30, 2020: two customers). Sales to these 3 customers were approximately $4,449, $2,145, and $2,028, respectively, for the three-months ended June 30, 2021 (three-months period ended June 30, 2020: two customers, with revenue of $5,786 and $5,130, respectively), and sales to these 3 customers were approximately $8,655, $4,305, and $4,218, respectively, for the six-months period ended June 30, 2021 (six-months period ended June 30, 2020: two customers, with revenue of $17,608 and $10,811, respectively).

As at June 30, 2021, these 3 customers represented a total of $4,252 or 33% of outstanding accounts receivable (December 31, 2020: two customers represented a total of $2,158 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:

($ thousands)	As at June 30, 2021	December 31, 2020
Days outstanding:		
Less than 31 days	**9,448**	8,045
31 to 60 days	**1,931**	3,131
61 to 90 days	**984**	1,208
Greater than 90 days	**1,181**	1,272
Provision for expected credit losses	**(653)**	(770)
Total	**12,891**	12,886

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 $45,000 in remaining availability under its credit facility, subject to the bank stipulated margin requirement, to enable execution of strategic direction.

Critical Accounting Judgements and Estimates

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

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 Biden administration in the US, upcoming federal election in Canada, 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 ongoing 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 including the emergent 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 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.

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

As at June 30, 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 June 30, 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 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 June 30, 2021.

Based on this evaluation, the CEO and CFO concluded that as at June 30, 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 June 30, 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 several 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 loss reported in the interim condensed consolidated statements 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 (loss) calculated in accordance with IFRS. Note that EBITDA is inclusive of government wage subsidies 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, excess of insurance proceeds over costs and foreign exchange gains or losses. Note that adjusted EBITDA is inclusive of government wage subsidies and rental subsidies recorded.

Management believes the adjustment 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 loss to EBITDA and Adjusted EBITDA for the three and six months ended June 30, 2021 and 2020:

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2021**	2020	**2021**	2020
Net loss	**$ (4,018)**	$ (6,145)	**$ (9,215)**	$ (8,310)
Add:				
Interest and finance expense	**146**	358	**362**	584
Income taxes	**(210)**	(386)	**(945)**	(285)
Depreciation	**4,834**	7,515	**11,758**	14,823
EBITDA	**752**	$ 1,342	**1,960**	$ 6,812
Adjustments to EBITDA:				
Share-based compensation	**68**	(18)	**163**	76
Gain on sale of property and equipment	**(45)**	(41)	**(509)**	(2,793)
Foreign exchange loss (gain)	**21**	(136)	**56**	(196)
Adjusted EBITDA	**$ 796**	$ 1,147	**$ 1,670**	$ 3,899

EBITDA for purposes of long-term debt covenants

EBITDA, as defined in High Arctic's revolving loan facility agreement, is used in determining the Corporation's compliance with its covenants. EBITDA is defined as the 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 $1,000 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 covenants 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 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 and six months ended June 30, 2021, net loss was the same as adjusted net loss of $4,018 and $9,215, respectively ($6,145 and $8,310, respectively in 2020).

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 %:

($ thousands, unless otherwise noted)	**Three months ended June 30** **2021**	2020	**Six months ended June 30** **2021**	2020
Revenue	**$ 16,377**	$ 16,109	**$ 34,144**	$ 55,721
Less:				
Oilfield services expense	**13,109**	11,836	**27,514**	44,137
Oilfield services operating margin	**$ 3,268**	$ 4,273	**$ 6,630**	$ 11,584
Oilfield services operating margin %	**20.0%**	26.5%	**19.4%**	20.8%

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 flow generated from operating activities as calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of cash flow generated from operating activities to funds provided from operations for the three and six months ended June 30, 2021 and 2020:

($ thousands)	**Three months ended June 30** **2021**	2020	**Six months ended June 30** **2021**	2020
Net cash generated from operating activities	**$ 2,023**	$ 7,678	**$ 938**	$ 16,571
Less:				
Changes in operating non-cash working capital	**(1,383)**	(6,807)	**292**	(13,467)
Funds provided from operations	**$ 640**	$ 871	**$ 1,230**	$ 3,104

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	
($ thousands)	**June 30, 2021**	December 31, 2020
Current assets	**45,538**	55,589
Less:		
Current liabilities	**(11,515)**	(11,012)
Working capital	**34,023**	44,577

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	
($ thousands)	**June 30, 2021**	December 31, 2020
Cash	**21,728**	32,598
Less:		
Long-term debt	**-**	(10,000)
Net cash	**21,728**	22,598

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 include, among other things, impact of high commodity prices on demand for and market prices for the Corporation’s services; impact of the Covid-19 Delta variant; activity increases in the medium and long-term in PNG; opportunities to invest and enhance shareholder value, CEWS criteria requirements and expectations on subsidy amounts, the Corporation’s ability to maintain a USD bank account and conduct its business in USD in PNG; market fluctuations in interest rates, commodity prices, and foreign currency exchange rates; restrictions to repatriate funds held in PGK; expectations regarding the Corporation’s ability to raise capital and manage its debt obligations; estimated capital expenditure programs for fiscal 2021; 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; expectations for the speed and efficacy of distributions relating to Covid-19 vaccines; and estimated credit risks and tax losses.

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
BPNG	- Bank of PNG
CAD	- Canadian dollars
CAOEC	- Canadian Association of Oilwell Energy Contractors
CEO	- Chief Executive Officer
CEWS	- Canada Emergency Wage Subsidy
CERS	- Canada Emergency Rent Subsidy
CFO	- Chief Financial Officer
CLS	- Canadian Light Sweet
DCP	- Disclosure controls and procedures
ECL	- Expected credit losses
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	- 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
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