MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED
June 30, 2022 and 2021

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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 11, 2022 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, 2022 and 2021 (the "**Financial Statements**") and the audited consolidated financial statements and notes for the years ended December 31, 2021 and 2020. Additional information relating to the Corporation including the Corporation's Annual Information Form ("**AIF**") for the year ended December 31, 2021, 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 11, 2022. 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 18 under the "Non-IFRS Measures" section.

Corporate Profile

Headquartered in Calgary, Alberta, Canada, High Arctic provides oilfield services to exploration and production companies operating in Papua New Guinea ("**PNG**") and Canada. High Arctic is a publicly traded corporation 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 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 services in PNG including the provision of personnel to assist our customer's drilling related operations within the country. 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 Canadian 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.

On July 27, 2022, the Corporation closed the sale of all of the assets of High Arctic's Canadian well servicing business (the "Well Servicing Transaction") to a third party. Additionally, on July 27, 2022, the Corporation closed the sale of its Canadian snubbing business to Team Snubbing Services Inc. ("Team") by asset purchase and agreement (the "Snubbing Transaction").

Accordingly, the Production Services segment no longer operated under the Corporation subsequent to the closing of the Well Servicing Transaction and Snubbing Transaction. The Corporation does have snubbing assets located in Colorado, USA but there is no current or planned activity for this location.

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.

A portion of revenue generated from the Canadian based oilfield rental equipment is associated with assets included as part of the Well Servicing Transaction. The Corporation retains its nitrogen pumping business and a rentals business focused on pressure control. The snubbing assets held in Colorado, USA will be reported under the Ancillary Services segment in the future.

In the following discussion, the three-months ended June 30, 2022 may be referred to as the “**Quarter**” or “**Q2-2022**”, and similarly the six months ended June 30, 2022 may be referred to as “**YTD-2022**”. The comparative three-months ended June 30, 2021 may be referred to as “**Q2-2021**”, and similarly the six months ended June 30, 2021 may be referred to as “**YTD-2021**”. 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.

Quarter and YTD-2022 Highlights

- Activity in PNG continued with an increased personnel count to over 200 employees and the successful completion of customer well abandonment work with Rig 115, while maintaining safety excellence.
- After the Quarter, High Arctic successfully renewed a 3-year contract for Drilling Services with a core customer in PNG and expects drilling to commence in Q4 2022.
- After quarter end on July 27, 2022, the Corporation sold its Canadian well servicing business for an aggregate purchase price of $38.2 million, and also sold its Canadian snubbing business for 42% equity ownership of Team, the acquiring company, and a note receivable of $3.4 million (“Sale Transactions”).
    - the Sale Transactions represent the effective divestment of High Arctic’s Production Services segment;
    - the well servicing business was purchased in August 2016 for $42.8 million in cash and recorded a non-cash bargain purchase gain of $12.7 million, higher than the $8.2 million non-cash impairment recognized on the sale during the Quarter;
    - the Corporation also recorded a non-cash $7.7 million write-down of deferred tax assets to reflect the divestments of its main Canadian businesses; and
    - the Corporation retains over $130 million of operating tax loss carry-forward in Canada.
- Revenues for Q2-2022 were $25.7 million, an increase of 57% from $16.4 million in Q2-2021, due to higher revenues in each of the Drilling, Ancillary Services and Canadian Production Services segments.
- Oilfield operating services margin as a percent of revenue increased in Q2-2022 to 23.1% versus 20.0% in Q2-2021.
- Adjusted EBITDA for the three and six-month periods ended June 30, 2022 was $3.1 million and $6.0 million respectively (2021: $0.8 million and $1.7 million, respectively).
- Net loss for the three and six-month periods ended June 30, 2022 was $20.3 million and $22.9 million, respectively.
    - Adjusted for removal of one-off impairment and deferred tax write downs, Net loss was $3.9 million and $6.5 million respectively, lower compared to a $4.0 million loss and $9.2 million loss in the respective 2021-periods.
- During Q2-2022, High Arctic commenced payment of a $0.005 per share monthly dividend with $0.5 million dividend payments during the quarter.
- Maintained a strong balance sheet, with a working capital balance of $27.5 million, including cash of $15.1 million, and total debt (current and long-term) of $7.9 million on June 30, 2022.

Select Comparative Financial Information

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

	For the three months ended June 30		For the six months ended June 30	
($ thousands, except per share amounts)	**2022**	2021	**2022**	2021
Revenue	**25,706**	16,377	**54,402**	**34,144**
Net loss	**(20,263)**	(4,018)	**(22,934)**	**(9,215)**
Per share (basic and diluted)	**(0.42)**	(0.08)	**(0.47)**	**(0.19)**
Oilfield services operating margin (1)	**5,936**	3,268	**11,246**	**6,630**
Oilfield services operating margin as a % of revenue (1)	***23.1%***	*20.0%*	***20.7%***	***19.4%***
EBITDA (1)	**(5,777)**	752	**(2,833)**	**1,960**
Adjusted EBITDA (1)	**3,100**	796	**5,984**	**1,670**
Adjusted EBITDA as % of revenue (1)	***12.1%***	*4.9%*	***11.0%***	***4.9%***
Operating loss(1)	**(3,111)**	(4,106)	**(5,929)**	**(10,251)**
Cash flow from operating activities	**6,120**	2,023	**6,420**	**938**
Per share (basic and diluted) (2)	**0.13**	0.04	**0.14**	**0.02**
Funds flow from operating activities (1)	**2,620**	640	**4,863**	**1,230**
Per share (basic and diluted) (2)	**0.05**	0.01	**0.10**	**0.03**
Dividend payments	**487**	-	**487**	**-**
Per share (basic and diluted) (2)	**0.015**	-	**0.015**	**-**
Capital expenditures	**1,734**	685	**3,316**	**1,450**

	As at	
($ thousands, except share amounts and shares outstanding)	**June 30, 2022**	December 31, 2021
Working capital (1)	**27,482**	29,724
Cash, end of period	**15,098**	12,037
Total assets	**161,784**	185,452
Long-term debt	**4,186**	7,779
Long-term financial liabilities, excluding long-term debt (1)	**5,820**	13,414
Shareholders' equity	**126,610**	148,851
Common shares outstanding, thousands	**48,733**	48,733

(1) Readers are cautioned that Oilfield services operating margin, EBITDA (Earnings before interest, tax, depreciation and amortization), Adjusted EBITDA, Funds flow from operating activities, operating loss, working capital, and long-term financial liabilities, excluding long-term debt do not have standardized meanings prescribed by IFRS – see "Non-IFRS Measures" on page 18 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 8(b) of the Financial Statements.

(3) Adjusted EBITDA includes the impact of wage and rent subsidies recorded in 2021. No wage or rent subsidies were received during 2022.

Outlook

After reflection on High Arctic's core strength and future opportunities the Corporation made a strategic decision to divest certain assets in Canada and focus on resurgent opportunities associated with our existing business in Papua New Guinea. Papua New Guinea is key to High Arctic's long-term business strategy, where the world class PNG-LNG facility has de-risked LNG investment and sustained high global pricing for LNG appears set to drive expansion. High Arctic is well positioned in PNG given high barriers to entry due to the technical expertise required to operate the heli-portable drilling rigs in frontier remote locations.

On July 28, 2022 High Arctic announced the closing of the sale of High Arctic's Canadian well servicing business and the sale of High Arctic's Canadian snubbing business. These transactions allow our management to streamline and develop a longer-term strategy for the remaining Canadian business and focus attention on the exciting opportunities for growth in PNG.

Subsequently, on August 1, 2022 High Arctic entered into a three-year contract renewal covering customer owned Heli-portable Drilling Rig 103 and High Arctic's services related to the supply of personnel, camp accommodation and rental equipment to support the drilling operations in PNG. Work is underway to prepare Drilling Rig 103 and its leapfrog unit for recommencement of drilling in Q4-2022. High Arctic anticipates that Drilling Rig 103 will operate consistently through the contract. This cornerstone contract is flexible and scalable to align with activity which positions High Arctic to respond quickly to future incremental drilling opportunities associated with LNG expansion.

All the rigs under High Arctic's care in PNG have been maintained during the Covid-19 induced drilling suspension and are well preserved, available for quick redeployment into service. These include our principal customer's other heli-portable Drilling Rig 104, High Arctic's own versatile heli-portable Drilling Rigs 115 & 116 and our high-capacity heli-portable hydraulic workover unit Rig 102. High Arctic is focused on working with customers in PNG to schedule the return to work for all of these rigs.

We acknowledge the recent PNG federal election results and congratulate Prime Minister Marape and the Pangu party on their return to government. We look forward to playing a role in the nation building objectives of the new government.

In North America, the Sale Transactions leaves High Arctic with a Nitrogen Pumping business and a smaller oilfield rentals business centered on pressure control and associated equipment as well as a dormant USA Snubbing operation. The Corporation intends to use the coming months to streamline these businesses, consolidating them in our Ancillary Services segment and determining the appropriate strategy to optimise the return from these investments.

High Arctic also retains its minority holding in the Seh' Chene partnership where committed operations will continue through 2022. Growing the provision of non-well servicing service offerings has become the focus for the partnership. These services include both High Arctic's remaining capabilities and those of Seh' Chene's growing list of third-party service partners.

High Arctic is excited to have become a significant shareholder of Team Snubbing Services Inc., a Canadian snubbing specialist on a rapid growth trajectory. Ownership in Team retains an exposure to the Canadian energy services sector, in a bespoke service offering that realizes high margins overseen by skilled and passionate management. The Corporation expects to see not only growth in snubbing deployment in Canada as a result of this transaction but intends to work with Team to evaluate opportunities for reactivating our dormant USA Snubbing operation.

Strategy

Our 2022 strategic priorities build on the platform we created in 2021 and include:

- Safety excellence and quality service delivery,
- Actions aimed at generating free cash flow including:
  - Increased utilization of the Corporation's world-class fleet of equipment,
  - Improved efficiency and work force productivity, and
  - Operating cost control.
- Development of new and existing employees to grow our workforce to meet demand,
- Pursuit of opportunities that secure the Corporation's future as a lower emissions energy services provider,
- Pursuit of opportunities for growth and corporate transactions in well understood markets that enhance shareholder value, and
- Disciplined capital stewardship to improve returns for shareholders including divestitures, dividends and common share buybacks.

Canadian Production Services Segment Divestments

On July 28, 2022, High Arctic announced the first closing of the sale of its Canadian well servicing business for an aggregate purchase price of $38,200 payable in cash. Additionally, on the same date the Corporation announced the closing of the sale of High Arctic's Canadian Snubbing business to a private entity for consideration consisting of 42% ownership in the outstanding shares in Team and a note receivable of $3,365. High Arctic will appoint two directors to the 5-person board of Team.

High Arctic retains its Ancillary Services Segment in Canada comprised of the Nitrogen Pumping business and a Rentals business focused on pressure control. High Arctic also retains its snubbing assets in the USA.

The Well Servicing Transaction resulted in the reclass of the following to Assets held-for-sale: property and equipment of $41,231, right-of-use asset of $4,662, prepaids of $185 and lease liability of $7,695. The Well Servicing Transaction resulted in the write down of property and equipment as non-cash impairment expense of $8,236 as at June 30, 2022. The well servicing business was purchased in August 2016 for $42,800 with a non-cash $12,700 gain on the acquisition booked to PP&E.

The Snubbing Transaction consideration comprises of 420,000 common voting shares in Team a private company, representing 42% of the post-closing total outstanding shares, and a convertible promissory note for $3,365 with a five-year term, interest accruing at 4.5% from January 1, 2023, and principal repayments commencing July of 2024. The Snubbing Transaction resulted in the reclass of property and equipment of $11,102 to assets held-for-sale on the Statement of Financial Position as at June 30, 2022. The Snubbing Transaction resulted in the write down of property and equipment as a non-cash impairment expense of $443 as at June 30, 2022. Investment in the share capital of the private company represents a joint arrangement whereby High Arctic has significant influence of the private entity operations and rights to the net assets of the private company.

As a result of the Well Servicing Transaction and Snubbing Transaction, the Corporation has a significantly reduced Canadian business and has written down the deferred tax assets while retaining in excess of $130,000 of operating tax loss carry-forward in Canada. Additionally, the Corporation has no funding available under its current undrawn revolving credit facility and the facility has been cancelled effective July 27, 2022.

At second closing of the Well Servicing Transaction in January 2023, the Corporation will transfer title to real estate locations owned by the Corporation to the purchaser and the Corporation will be required to repay $3,565 of mortgage principal related to these properties.

Discussion of Operations

Three-Months Period Ended June 30, 2022 Summary:

- High Arctic continues to see improved activity levels in PNG, driving increases in Drilling Services and Ancillary Service revenues to $6,101 and $4,205, respectively (Q2-2021 revenues: $893 and $2,572, respectively).
- PNG activity also drove consolidated oilfield services operating margin as a percentage of revenue up to 23.1% from 20.0% in Q2-2021. Improved profitability is partially offset by the removal of Canadian emergency wage subsidies ("**CEWS**") in 2022 (Q2-2021 $848 of CEWS received).
- In April 2022, High Arctic announced the renewal of a key Canadian contract managed out of the Corporation's Cold Lake facility, which includes an approximate 20% increase to the base hourly rig rate. This and other pricing increases raised High Arctic's Production Services segment revenue by 21% to $16,079 (Q2-2021: $13,328).

- Utilization for High Arctic's 51 registered Concord Well Servicing rigs was 44% in the Quarter versus industry utilization of 45% (source: Canadian Association of Oilwell Energy Contractors "CAOEC").

Year to Date June 30, 2022 Summary:

- The recommencement of drilling services activity in PNG has resulted in YTD-2022 Drilling Servicing segment revenue of $15,675 compared to $1,644 YTD-2021 and increased YTD-2022 Ancillary Services segment revenue to $8,973 compared with $4,768 YTD-2021.
- The Corporation's Production Service segment realized improved YTD-2022 revenues of $31,141 (2021: $28,703) due to improved customer pricing lifting revenue per hour in well servicing operations but partially by lower snubbing activity.
- Utilization for High Arctic's 51 registered Concord Well Servicing rigs was 44% a drop in utilization from 46% YTD-2021 due to the addition of two rigs into the marketed fleet .
- Due to a return to profitable operations in PNG cash increased by $3,061 YTD-2022 to $15,098, and the Corporation declared $731 in its recommenced $0.005 per share monthly dividend.

Operating Results

Drilling Services Segment

($ thousands, unless otherwise noted)	Three months ended June 30 2022	Three months ended June 30 2021	Six months ended June 30 2022	Six months ended June 30 2021
Revenue	**6,101**	893	**15,675**	1,644
Oilfield services expense	**4,637**	897	**12,114**	1,729
Oilfield services operating margin (1)	**1,464**	(4)	**3,561**	(85)
Operating margin (%)	***24%***	*(0.4%)*	***22.7%***	*(5.2%)*

(1) See "Non-IFRS Measures" on page 18

High Arctic commenced active drilling rig operations in Q1-2022 with Rig 115 performing abandonment work on a customer's legacy exploration well. The short-term program was successfully completed during the second quarter.

In addition during Q2-2022, customer oil and gas field activity levels continued to increase in PNG. This required High Arctic to mobilize drilling personnel to assist with the commencement of an additional abandonment well utilizing a third party owned rig, preparing Rig 103 to return to service and supporting other well site activity for customers.

The Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) and has an agreement to operate additional rigs on behalf of and for major oil and gas exploration customers in PNG. In Q1-2022 drilling activity recommenced for Rig 115 while Rigs 103, 104, and 116 all remained cold stacked.

On August 1, 2022 High Arctic announced a three-year contract renewal with a principal customer in PNG for Rig 103. Personnel had commenced deployment in Q2-2022, and High Arctic expects drilling to begin in early Q4-2022.

Production Services Segment

($ thousands, unless otherwise noted)	Three months ended June 30 2022	Three months ended June 30 2021	Six months ended June 30 2022	Six months ended June 30 2021
Revenue	**16,079**	13,328	**31,141**	28,703
Oilfield services expense	**13,935**	11,139	**28,750**	24,096
Oilfield services operating margin (1)	**2,144**	2,189	**2,391**	4,607
Operating margin (%)	***13.3%***	*16.4%*	***7.7%***	*16.1%*

(1) See "Non-IFRS Measures" on page 18

Operating Statistics - Canada	Three months ended June 30 **2022**	2021	Six months ended June 30 **2022**	2021
Service rigs:				
Average fleet [(2)]	**51**	49	**51**	49
Utilization [(3)]	**44%**	44%	**44%**	46%
Operating hours	**20,254**	19,469	**40,702**	40,589
Revenue per hour ($)	**757**	582	**706**	591
Snubbing packages:				
Average fleet [(4)]	**7**	8	**7**	8
Utilization [(3)]	**9%**	19%	**13%**	24%
Operating hours	**559**	1,400	**1,621**	3,409

(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 fleet represents the average number of packages marketed during the period.

Lower operating margins achieved during Q2-2022 and YTD-2022 is reflective of lower snubbing activity and no funding received under Covid-19 government subsidy programs. Normalizing for CEWS, well servicing margins have improved quarter on quarter but crew shortages and operating cost inflation have hampered the Corporations efforts to improve margins further.

Service Rigs

Throughout 2022, the Corporation worked with key customers to address inflationary cost pressures and grow margins. Effective April 1, 2022 High Arctic renewed a large volume contract with a key customer in Cold Lake, which along with other customer pricing increases resulted in higher revenue per hour of $757 and $706 on its service rigs for the three and six-month periods ended June 30, 2022 (2021: Revenue per hour $582 and $591, respectively).

Snubbing packages

Snubbing operating hours for the three and six-month periods ended June 30, 2022 were 559 hours and 1,621 hours respectively, lower as compared to 1,400 hours and 3,409 hours in the respective 2021-periods. High Arctic continued to experience operating constraints due limited demand for snubbing services and availability of snubbing personnel resulting in reducing utilisation.

Ancillary Services Segment

($ thousands, unless otherwise noted)	Three months ended June 30 **2022**	2021	Six months ended June 30 **2022**	2021
Revenue	**4,250**	**2,572**	**8,973**	**4,768**
Oilfield services expense	**1,922**	**1,489**	**3,678**	**2,660**
Oilfield services operating margin [(1)]	**2,328**	**1,083**	**5,295**	**2,108**
Operating margin (%)	***54.8%***	***42.1%***	***59.0%***	***44.2%***

(1) See "Non-IFRS Measures" on page 18

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

For the three and six-month periods ended June 30, 2022, Ancillary Services revenues were $4,250 and $8,973, respectively, a 65% and 88% increase respectively relative to $2,572 and $4,768 in Q2-2021 and YTD-2021. These substantially improved results are primarily due to higher oilfield equipment rentals, such as cranes, camps and matting in PNG to support drilling services and other customer activities.

General and Administrative ("G&A")

($ thousands, unless otherwise noted)	Three months ended June 30 **2022**	2021	Six months ended June 30 **2022**	2021
G&A	**2,836**	**2,472**	**5,262**	**4,960**
% of revenue	***11.0%***	***15.1%***	***9.7%***	***14.5%***

YTD and Q2-2022 G&A costs of $2,836 and $5,262 were slightly higher as compared to $2,472 and $4,960 in the same

2021-periods, primarily due to higher legal and personnel costs associated with the Sale Transactions. With the increasing revenue, G&A costs as a percent of revenue YTD and Q2-2022 were lower at 11.0% and 9.7% (2021: 15.1% and 14.5%, respectively). Due to the nature of the Corporation's historical restructuring, higher revenues in PNG require only marginal increases in administrative support.

High Arctic remains committed to ensuring these costs are managed and balanced within the overall strategic plan for the Corporation. High Arctic will continue to right-size G&A costs subsequent to the close of the Well Servicing Transaction and Snubbing Transaction.

Depreciation

Depreciation expense on property and equipment and right-of-use assets totaled $5,998 in Q2-2022 compared to $4,834 during Q2-2021. Higher depreciation in Q2-2022 is due to $511 recorded as a reduction to depreciation in Q2-2021 correcting an overestimate and certain equipment accelerating depreciation in Q2-2022. YTD-2022 depreciation expense was $11,562 slightly lower than $11,758 YTD-2021 depreciation expense.

Impairment

As a result of the Sales Transactions, the Corporation recognized $8,679 impairment expense in Q2-2022, reducing well servicing and snubbing property and equipment. The Well Servicing Transaction resulted in an impairment expense of $8,236, and the Snubbing Transaction resulted in an impairment expense of $443, property and equipment of $52,334 was transferred to assets held-for-sale as at June 30, 2022.

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 Corporation recognized higher share-based compensation for the three and six-month periods ended June 30, 2022 of $213 and $351, relative to Q1-2021 expense of $68 and $163. Higher expense due to new grants and re-invested dividends under the Corporation's Performance Share Unit Plan and Deferred Share Unit Plan in 2022.

Interest and Finance Expense

	Three months ended June 30		**Six months ended June 30**	
($ thousands)	**2022**	2021	**2022**	2021
Interest on mortgages, debt and standby fees	**128**	51	**253**	150
Finance expense – lease liabilities	**90**	98	**178**	199
Other	**6**	(3)	**18**	13
Total	**224**	146	**449**	362

In December 2021, the Corporation obtained long-term mortgage financing of $8,100 on certain High Arctic owned and occupied land and buildings in Canada, which resulted in slightly higher interest expense in 2022.

In Q1-2021, the Corporation repaid, in full, $10,000 cash drawn from its revolving loan facility.

Finance expense on lease liabilities associated with the time value of money for the three and six-month periods ended June 30, 2022 was $90 an $178, respectively (2021: $98 and $199, respectively), as the liability is initially recorded at its present value.

Other interest and finance expense primarily relates to bank charges in the respective periods.

Income Taxes

	Three months ended June 30		**Six months ended June 30**	
($ thousands, unless otherwise noted)	**2022**	2021	**2022**	2021
Loss before income taxes	**(11,999)**	(4,228)	**(14,844)**	(10,160)
Current income tax expense	**(343)**	(108)	**(850)**	(277)
Deferred income tax (expense) recovery	**(7,921)**	318	**(7,240)**	1,222
Total income tax	**(8,264)**	210	**(8,090)**	945
Effective tax rate	***68.9%***	*(5.0%)*	***54.5%***	*(9.3%)*

Higher deferred income tax expense is primarily due to the write-down of $7,743 deferred tax assets relating to deductible temporary differences in Canada, as a result of the Sales Transactions.

The impact of impairment on the Corporations loss before income taxes will not be recognized by taxing bodies in any of the Corporations operating jurisdictions. Higher current income tax expense in 2022 is reflective of increased activity in PNG resulting in increased withholding tax in foreign jurisdictions.

Tax rates in 2022 were impacted by foreign tax on income earned in foreign jurisdictions as well as write-downs of deferred tax assets with respect to deductible temporary differences in Canada.

Other Comprehensive Loss

The Corporation recorded a $1,992 foreign currency translation gain in other comprehensive loss for Q2-2022 (Q2-2021: $1,081 foreign currency translation loss) associated with subsidiaries with functional currencies other than CAD. Similarly, the Corporation recorded a $1,073 foreign currency translation gain in other comprehensive loss for YTD-2022 (YTD-2021: $2,017 foreign currency translation loss). Gains in both 2022-periods relate to the weakening of the CAD compared to the USD in the respective periods.

Liquidity and Capital Resources

($ thousands)	**Three months ended June 30** **2022**	**2021**	**Six months ended June 30** **2022**	2021
Cash provided by (used in):				
Operating activities	**6,364**	2,023	**6,664**	938
Investing activities	**(1,539)**	(752)	**(1,957)**	(659)
Financing activities	**(1,032)**	(384)	**(1,553)**	(10,792)
Effect of exchange rate changes on cash	**(137)**	(176)	**(93)**	(357)
Increase (decrease) in cash	**3,656**	711	**3,061**	(10,870)

($ thousands, unless otherwise noted)	**As at June 30, 2022**	December 31, 2021
Current assets	**44,955**	45,132
Working capital (1)	**27,482**	29,724
Working capital ratio (1)	***2.6 : 1***	*2.9 : 1*
Cash	**15,098**	12,037
Net cash (1)	**7,158**	3,962
Undrawn availability under revolving credit facility (2)	**37,000**	37,000

(1) See "Non-IFRS Measures" on page 18
(2) Revolving credit facility was cancelled in July 2022 as part of the closing of the Sales Transaction.

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 historically received such approval for its 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, 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

Q2-2022 cash generated from operating activities was $6,364 (Q2-2021: $2,023), of which $2,620 are funds provided by operations (Q2-2021: $640), see "Non-IFRS Measures" on page 18, and $3,744 cash inflow from working capital changes (Q2-2021: $1,383) mainly due to decrease in accounts receivable during the Quarter.

YTD-2022 cash generated from operating activities was $6,364 (YTD-2021: $938), of which $4,863 are funds provided by operations (YTD-2021: $1,230), see “Non-IFRS Measures” on page 18, and $1,801 cash inflow from working capital changes (YTD-2021: $292 outflow) mainly due to decrease in accounts receivable during the period.

Investing Activities

In Q2-2022 the Corporation’s cash used in investing activities was $1,539 (Q2-2021: $752). Capital expenditures were $1,734 (Q2-2021: $685) partially offset by $74 proceeds on disposal of property and equipment (Q2-2021: $260), and $121 cash inflow relating to working capital balance changes for capital items (Q2-2021: $327 outflow).

YTD-2022 the Corporation’s cash used in investing activities was $1,957 (YTD-2021: $659). Capital expenditures were $3,316 (YTD-2021: $1,450) partially offset by $1,111 proceeds on disposal of property and equipment (YTD-2021: $831), and $248 cash inflow relating to working capital balance changes for capital items (YTD-2021: $40 outflow).

Financing Activities

In Q2-2022, the Corporation’s cash used in financing activities was $1,032 (Q2-2021: $384). During the Quarter the Corporation paid $731 for dividend payments, $464 lease liability payments (Q2-2021:$384) and $81 towards principal payments on its mortgage financing, see “Mortgage Financing” below.

YTD-2022, the Corporation’s cash used in financing activities was $1,553 (YTD-2021: $10,792). During the period, the Corporation paid $931 lease liability payments (YTD 2021: $792), $731 for dividend payments and $135 towards principal payments on its mortgage financing, see “Mortgage Financing” below (YTD-2021: $10,000 loan payment on Credit Facility).

Credit Facility

In December 2021, the Corporation amended its revolving credit facility from a borrowing limit of $45,000 to $37,000 and site-specific assets held as mortgage security for separate mortgage financing was carved out. In addition, up to $5,000 of the revolving loan was made available by way of account overdraft outside covenant requirements described below.

The Corporation’s revolving credit facility 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 prime plus an applicable margin which fluctuates based on the Funded Debt to Covenant 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 Covenant EBITDA ratio and range between 0.40% and 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 Covenant EBITDA ratio to be less than 3.0 to 1 and the second covenant requires Covenant EBITDA to Interest Expense ratio to be a minimum of 3.0 to 1. Both are calculated on the last day of each fiscal quarter on a rolling four quarter basis. As at June 30, 2022, the Corporation was in compliance with these two financial covenants.

The financial covenant calculations at June 30, 2022 are:

Covenant	Covenant	**As at June 30, 2022**
Funded debt to Covenant EBITDA (1)	< 3.0x	-
Covenant EBITDA to Interest expense (1)	>3.0x	18.2

(1) As at June 30, 2022 the Corporation had access to $23,136 of the revolving facility.

Funded Debt to Covenant EBITDA is defined as the ratio of consolidated Funded Debt to the aggregate Covenant 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. Covenant 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 non-cash inventory write-downs, less gains from foreign exchange and sale or purchase of assets and lease payments.

In July 2022, the Corporation executed closing of the Sale Transactions, for the Canadian well servicing and snubbing businesses. After close, the Corporation had no funding available under the revolving credit facility and the facility was cancelled. The Corporation intends to fund working capital and capital expenditures needs from cash balances with a view to establish a new arrangement geared towards its PNG business in due course, as at June 30, 2022 cash balance was $15,098.

Mortgage Financing

($ thousands)	**As at June 30, 2022**	As at December 31, 2021
Current	**3,754**	296
Non-current	**4,186**	7,779
Total	**7,940**	8,075

In December 2021, the Corporation entered into a mortgage arrangement with the Business Development Bank of Canada (BDC) for $8,100, secured by lands and buildings owned and occupied by High Arctic within Alberta. The mortgage financing provides the Corporation with long term liquidity and adds to existing cash balances. The mortgage has an initial term of 5 years with a fixed interest rate of 4.30% and an amortization period of 25 years with payments occurring monthly. The mortgage liability and associated financing costs are carved out of all revolving credit facility financial covenant calculations.

The Corporation capitalized $25 in financing fees incurred to set up the loan in 2021 and applied this to the long-term debt liability. Financing fees will be amortized over the expected life of the mortgage financing.

In July 2022 the Corporation executed closing of the Sale Transactions, for the Canadian well servicing and snubbing businesses. At second closing of the Well Servicing Transaction in January 2023, the Corporation will transfer title to real estate locations owned by the Corporation to the purchaser of the well servicing business and the Corporation will be required to repay mortgage principal of $3,565 related to these properties.

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 $7,363 at June 30, 2022 (December 31, 2021: $7,244) by a customer for the Corporation's operations in PNG. The inventory is owned by this party and has not been recorded on the books of High Arctic. At the end of the contract, the Corporation must make a payment to the customer equivalent to any inventory shortfall and return the balance of inventory on hand.

Outstanding Share Data

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

($ thousands, except share numbers)	**Six-months ended June 30, 2022**		Year ended December 31, 2021	
Common shares issued and outstanding:	**Shares**	**Amount**	Shares	Amount
Balance, beginning of period	**48,733,145**	**169,697**	48,759,660	169,220
Exercise of performance share units	**-**	**-**	52,289	751
Normal course issuer bid	**-**	**-**	(78,804)	(274)
Balance, end of period	**48,733,145**	**169,697**	48,733,145	169,697

The common shares do not have a par value and all issued shares are fully paid.

On December 13, 2021, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,420,531 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 15, 2021 and terminating on December 14, 2022. Pursuant to the NCIB no shares have been purchased and cancelled.

The Corporation's previous NCIB commenced on December 11, 2020 and terminated on December 10, 2021. Pursuant to this previous NCIB, in total 78,804 common shares were purchased and cancelled in 2021.

At June 30, 2022, 448,000 stock options were outstanding at an average exercise price of $2.04 per share, as well as 1,135,550 units under the Corporation's Performance Share Unit Plan and 909,400 units under the Deferred Share Unit plan.

No further common shares have been issued from June 30, 2022 to the date of this MD&A.

Summary of Quarterly Results

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

	2022		2021				2020	
($ thousands, except per share)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Revenue	25,706	28,696	23,644	18,654	16,377	17,767	16,584	18,529
Adjusted EBITDA[(1)(2)]	3,100	2,884	1,836	1,412	796	874	1,154	3,476
Net loss [(2)]	(20,263)	(2,671)	(4,608)	(4,784)	(4,018)	(5,197)	(11,468)	(6,079)
Per share – basic and diluted	(0.47)	(0.05)	(0.10)	(0.10)	(0.08)	(0.11)	(0.23)	(0.12)
Cash provided by (used in) operating activities	6,364	300	(3,472)	737	2,023	(1,085)	2,389	1,192
Funds provided by operations[(1)]	2,620	2,243	1,390	1,077	640	590	859	2,357

(1) See "Non-IFRS Measures" on page 18
(2) Adjusted EBITDA and Net loss include the impact of wages subsidies (CEWS) and rent subsidies recorded during 2021and 2020

Revenues were slightly down in Q2-2022 relative to Q1-2022 due to completion of drilling services with Rig 115 in PNG in early Q2-2022. Revenues in Q2-2022 relative to Q2-2021 were higher since drilling in PNG was paused throughout 2021 due to the impact of Covid-19 in the region. Coming out of the pandemic, management has initiated discussion with customers to improve pricing in line with market conditions. The Corporation has experience higher customer prices throughout 2022 as a result of increased demand and tightening of supply following sustained high global commodity prices driven by supply and demand imbalances, exacerbated by the direct effects of the war in Ukraine as well as the sanctions imposed on Russia by NATO nations and other OECD countries. Oil prices reached decade highs as a result, despite continued negative impacts globally from the pandemic. High Arctic's outlook is encouraged by the recovery, and management anticipates improved activity looking forward through the second half of 2022.

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 thus reducing demand for services in Canadian operations. Therefore, the second quarter is generally the weakest quarter of the year for the Corporation's operations in Canada.

Industry Indicators and Market Trends

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.

	2022		2021				2020	
($)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and natural gas prices								
(Averages for each period):								
Brent Crude Oil (USD $/bbl)[1]	112	97	80	73	69	61	45	43
Japan LNG (USD $/mmbtu)[2]	17.07	16.57	13.47	11.68	8.75	9.60	6.65	6.82
USD/CAD exchange rate[1]	1.29	1.25	1.26	1.26	1.23	1.27	1.30	1.33

(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 volatility in oil and gas prices. The USD/CAD exchange rate was higher in Q2-2022 which has had a positive impact on 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. In August 2022 High Arctic announced a three-year contract renewal with a principal customer in PNG for Rig 103.

Pricing for oil and natural gas production in PNG is generally tied to world prices such as Brent Crude and Japan LNG, which have rebounded strongly and remained elevated in YTD-2022.

In Q2-2022, the Brent Crude Oil price average increased to USD $112/bbl. Japan LNG prices continued to climb in Q2-2022 with average prices breaching USD $17/mmbtu in the quarter, and spot prices regularly exceeding $35/mmbtu.

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.

	2022		2021				2020	
($, unless otherwise noted)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and natural gas prices								
($ Average for each the period):								
West Texas Intermediate ("WTI") (USD $/bbl)[1]	108	94	77	71	66	58	39	41
West Canada Select ("WCS") (CAD $/bbl)[1]	122	101	79	72	67	57	36	42
Canadian Light Sweet Oil ("CLS") (CAD $/bbl)[1]	136	118	92	84	76	69	45	49
AECO (CAD $/MMbtu)[1]	7.26	4.77	4.74	3.75	3.07	3.13	2.65	2.27
Other industry indicators:								
Avg service rig utilization rates[2]	45%	48%	42%	38%	29%	39%	31%	22%
Avg drilling rig utilization rates[2]	35%	51%	41%	39%	24%	27%	16%	9%

(1) Source: Sproule
(2) Source: utilization rates CAOEC

WTI, WCS and CLS average prices continued their upward trend, with average oil prices increasing for six consecutive quarters. The above trend increases this quarter has been driven by the consequences of historically low capital investments and supply demand constraints, the war in Ukraine and OPEC's determination to stick to limited bbl/d increases per month, despite calls from the US and other governments to increase production further.

In Canada, industry activity has picked up in Q2-2022 relative to Q2-2021, in response to the high commodity prices and demand increase. Long-term, Canada continues to be constrained by the lack of take away pipeline capacity, and lower exploration and production company investment confidence, under the policies of governments in the US and Canada. The development of additional pathways to market, and a shift in political focus from energy transition to energy security may combine to provide a sustainable positive counterpoint.

Financial Risk Management

Financial and other risks

The Corporation is exposed to financial risks arising from its financial assets and liabilities. This includes the risk associated with the 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 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 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 long-term debt includes a floating rate credit facility and fluctuates in response to changes in the prime interest rates. Long-term debt also includes mortgage financing with a fixed rate term subject to renewal interest rate changes. The Corporation had no risk management contracts that would be affected by interest rates in place on June 30, 2022.

b) 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 and geopolitical events. This includes implications from changing oil demand and supply, policy direction taken by OPEC including the role taken by Russia, 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 US government 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, 2022.

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, 2022, 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 $102 and $233, respectively (2021: $145 and $373, respectively).

The average CAD to USD exchange rate for the Quarter was $1.27 compared to $1.23 during Q2-2021. As at June 30, 2022, the CAD to USD exchange rate was $1.29 versus $1.26 as at December 31, 2021.

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, 2022 USD $630 (December 31, 2021 – USD $384) 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 historically received approval from the BPNG for most of its 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, or new contracts do not receive BPNG approval, 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, 2022:

($ thousands)	USD (1)	PGK (2)	Australian Dollars ("AUD") (3)
Cash	2,411	10,452	95
Accounts receivable	2,116	14,435	7
Accounts payable and accrued liabilities	(736)	(9,224)	(795)
Total – Canadian Dollars	3,791	15,663	(693)

(1) As at June 30, 2022, one USD was equivalent to 1.29 CAD.
(2) As at June 30, 2022, one PGK was equivalent to 0.36 CAD.
(3) As at June 30, 2022, one AUD was equivalent to 0.89 CAD.

Credit risk, customers and economic dependence

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

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

In providing for expected credit losses ("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 4 large multinational/regional customers who individually accounted for greater than 10% of its consolidated revenues during the three-month period ended June 30, 2022 with sales of $6,007, $3,886, $2,982, and $2,925, respectively (2021: three customers with revenues of $4,449, $2,145, and $2,028, respectively).

The Corporation provides services to 4 large multinational/regional customers who individually accounted for greater than 10% of its consolidated revenues during the six-month period ended June 30, 2022 with sales of $10,582, $8,535,

$5,908, and $5,615, respectively (June 30, 2021: three customers with revenues of $8,655, $4,305, and $4,218, respectively).

As at June 30, 2022, these 4 customers represented a total of $6,289 or 36% of outstanding accounts receivable (December 31, 2021: two customers represented a total of $2,737 or 13% of outstanding accounts receivable).

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

($ thousands)	**As at June 30, 2022**	As at December 31, 2021
Less than 31 days	**11,598**	11,803
31 to 60 days	**2,227**	6,415
61 to 90 days	**3,349**	2,522
Greater than 90 days	**1,092**	675
Provision for expected credit losses	**(590)**	(701)
	17,676	20,714

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, geopolitical events, 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 $37,000 in remaining availability under its credit facility, subject to the bank stipulated margin requirement, to enable execution of strategic direction, see "Credit Facility" section of this MD&A for calculation of the credit facility ratio requirements. Subsequent to closing of the Sale Transactions in July 2022 of the Corporation's Canadian well servicing and snubbing businesses as well as a portion of the Corporation's Canadian rentals related to the well servicing business, no funding is available for the revolving credit facility. High Arctic intends to fund working capital and capital expenditure needs from cash balances with a view to establish a new arrangement geared towards its PNG business in due course.

Critical Accounting Judgements and Estimates

Information on the Corporation's critical accounting judgements and estimates can be found in Note 2 Basis of Presentation - Critical Accounting Judgements and Estimates in the annual audited consolidated financial statements for the year ended December 31, 2021.

Impacts of the Covid-19 pandemic described in "Global Developments and High Arctic's Strategic Objectives" section of the 2021 annual MD&A, as well as emissions, carbon and other regulations impacting climate and climate related matters are constantly evolving. With respect to Environmental Social Governance (ESG) and climate reporting, the International Sustainability Standards Board has issued a IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed national instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed, has not yet been quantified.

There remains significant uncertainty around the expected policies to be enforced by large governmental bodies in regard to oil and gas production. While the recovery trend is encouraging and a continuing focus on supply balance for oil and gas producers is warranted, there are significant headwinds surrounding policies to meet climate change emission targets.

These political and pandemic developments impact High Arctic as the Corporation pursues its strategy and allocates resources to support its principal markets in Canada driven by customers' oil and natural gas production and in PNG where its customers are restarting drilling operations, and new LNG supply is being contemplated. In addition, the global focus to address climate change has created a rotation of investment capital away from the oil and gas industry in certain markets with the potential to increase High Arctic's cost of capital and reduce access to growth funding. The direct and indirect costs of climate change relating to High Arctic and its customers is uncertain. Climate change may have an adverse impact on High Arctic and its customers, and creates uncertainty surrounding the estimated useful life and impairment of property and equipment.

At June 30, 2022, High Arctic booked $8,679 impairment expense relative the Sale Transactions, no indicators of impairment existed within the Corporation's CGUs.

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

As at June 30, 2022, 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, 2022, 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, 2022.

Based on this evaluation, the CEO and CFO concluded that as at June 30, 2022, 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, 2022 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, 2021 AIF, which are specifically incorporated by reference herein. The AIF is available on SEDAR at www.sedar.com, copies of which can be obtained on request, from the Corporation.

Non-IFRS Measures

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

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

Earnings before interest, taxes, depreciation and amortization ("EBITDA")

EBITDA is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. EBITDA is defined as net loss adjusted for income taxes, interest and finance expense, and depreciation. Management believes that, in addition to net loss reported in the 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 or be construed as an alternative to net earnings (loss) calculated in accordance with IFRS. Note that EBITDA is inclusive of government wage subsidies and rental subsidies recorded. Refer to table in Adjusted EBITDA below that provides a reconciliation of net earnings (loss), as disclosed in the consolidated statements of loss and comprehensive loss, to EBITDA.

Covenant EBITDA for purposes of long-term debt covenants

Covenant EBITDA, as defined in High Arctic's revolving loan facility agreement, is used in determining the Corporation's compliance with its covenants. Covenant 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, foreign exchange loss, and non-cash inventory write-downs, less lease liability payments, and gains from foreign exchange and sale or purchase of assets. Interest expense excludes any impact of IFRS 16. Note that Covenant EBITDA for purposes of long-term debt covenants is inclusive of CEWS and rental subsidies recorded.

Adjusted EBITDA

Adjusted EBITDA is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Adjusted EBITDA is defined based on EBITDA (as defined above) prior to the effect of share-based compensation, gains or losses on sales or purchases of assets or investments, business acquisition costs, impairment charges, other costs related to consolidating facilities, excess of insurance proceeds over costs and foreign exchange gains or losses. Note that adjusted EBITDA is inclusive of CEWS, and rental subsidies recorded.

Management believes the addback for these items provides a more comparable measure of the Corporation's operational financial performance between periods. Adjusted EBITDA as presented is not intended to represent or be construed as an alternative to net earnings (loss) in accordance with IFRS.

The following table provides a quantitative reconciliation of consolidated net earnings (loss), as disclosed in the consolidated statements of loss and comprehensive loss, to EBITDA and Adjusted EBITDA for the three and six-months ended June 30, 2022 and 2021:

($ thousands)	**Three months ended June 30**		**Six months ended June 30**	
	2022	2021	**2022**	2021
Net loss	**(20,263)**	**(4,018)**	**(22,934)**	**(9,215)**
Add:				
Interest and finance expense	**224**	**146**	**449**	**362**
Income taxes	**8,264**	**(210)**	**8,090**	**(945)**
Depreciation	**5,998**	**4,834**	**11,562**	**11,758**
EBITDA	**(5,777)**	**752**	**(2,833)**	**1,960**
Adjustments to EBITDA:				
Impairment	**8,679**	**-**	**8,679**	**-**
Share-based compensation	**213**	**68**	**(128)**	**163**
Gain on sale of property and equipment	**(35)**	**(45)**	**(136)**	**(509)**
Foreign exchange loss (gain)	**79**	**21**	**51**	**56**
Adjusted EBITDA	**3,100**	**796**	**5,984**	**1,670**

Oilfield services operating margin

Oilfield services operating margin is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Oilfield services operating margin is used by management to analyze overall operating performance. Management believes this non-IFRS financial measure provides useful information to investors and others in understating the Corporation's operating performance. Oilfield services operating margin is not intended to represent revenue, 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 as presented is not intended to represent or be construed as an alternative to revenue or net earnings (loss) in accordance with IFRS.

Oilfield services operating margin %

Oilfield services operating margin % is a non-IFRS measure in line with oilfield services operating margin discussed above. 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 2022	2021	Six months ended June 30 2022	2021
Revenue	**25,706**	16,377	**54,402**	**34,144**
Less:				
Oilfield services expense	**19,770**	13,109	**43,156**	**27,514**
Oilfield services operating margin	**5,936**	3,268	**11,246**	**6,630**
Oilfield services operating margin %	**23.1%**	20.0%	**20.7%**	**19.4%**

Operating loss

Operating loss is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Operating loss is used by management to analyze overall operating performance. Management believes this non-IFRS financial measure provides useful information to investors and others in understating the Corporation's operating performance. Operating loss is not intended to represent revenue, net earnings (loss), or other measures of financial performance calculated in accordance with IFRS. Operating loss is calculated as revenue less oilfield services expense, general and administrative expense, depreciation, and share-based compensation. Operating loss as presented is not intended to represent or be construed as an alternative to revenue or net earnings (loss) or other measures of financial performance calculated in accordance with IFRS. The table disclosed below provides a quantitative reconciliation of revenue, as disclosed in the consolidated statements of loss and comprehensive loss, to operating loss for the three and six-months ended June 30, 2022 and 2021:

($ thousands)	Three-months ended June 30 2022	2021	Six months ended June 30 2022	2021
Revenue	**25,706**	16,377	**54,402**	**34,144**
Less:				
Oilfield services expense	**19,770**	13,109	**43,156**	**27,514**
General and administrative expense	**2,836**	2,472	**5,262**	4,960
Depreciation	**5,998**	4,834	**11,562**	11,758
Share-based compensation	**213**	68	**351**	163
Operating loss	**(3,111)**	(4,106)	**(5,929)**	**(10,251)**

Percentage of revenue

Certain figures are stated as a percentage 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

Funds provided from operations is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Funds provided from operations is defined as net cash (used in) provided from operating activities adjusted for changes in non-cash working capital. Management believes that, in addition to net cash generated from operating activities as reported in the consolidated statements of cash flows, cash provided by operating activities before changes in non-cash working capital adjustments ("**funds provided from operations**") is a useful supplemental measure as it provides an indication of the funds generated by High Arctic's principal business activities prior to consideration of changes in items of working capital.

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

The following tables provide a quantitative reconciliation of net cash (used in) generated from operating activities, as disclosed in the consolidated statements of cash flows, to funds provided from operations for the three and six-months ended June 30, 2022 and 2021:

($ thousands)	Three-months ended June 30, 2022	Three-months ended June 30, 2021	Six-months ended June 30, 2022	Six-months ended June 30, 2021
Net cash generated from operating activities	**6,120**	2,023	**6,420**	938
Less:				
Changes in non-cash working capital balances - operating	**3,500**	(1,383)	**1,557**	(292)
Funds provided from operations	**2,620**	640	**4,863**	1,230

Working capital

Working capital is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. 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. Working capital ratio is defined as current assets dividend by current liabilities. This measure is not intended to represent or be construed as an alternative to current assets as calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of current assets, as disclosed in the consolidated statements of financial position, to working capital as at June 30, 2022 and December 31, 2021:

($ thousands, unless otherwise noted)	As at June 30, 2022	As at December 31, 2021
Current assets	**44,955**	45,132
Less:		
Current liabilities	**(17,473)**	(15,408)
Working capital	**27,482**	29,724
Working capital ratio	**2.6:1**	2.9:1

Total long-term financial liabilities, excluding long-term debt

Total long-term financial liabilities, excluding long-term debt is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Total long-term financial liabilities, excluding long-term debt is used by management as another measure to analyze the operating liquidity and total commitments the Corporation has outstanding. It is defined as total non-current liabilities less long-term debt.

The following tables provide a quantitative reconciliation of non-current liabilities, as disclosed in the consolidated statements of financial position, to total long-term financial liabilities, excluding long-term debt as at June 30, 2022 and December 31, 2021:

($ thousands)	As at June 30, 2022	 December 31, 2021
Long-term debt	**4,186**	7,779
Lease liability	**185**	7,364
Deferred tax liability	**5,635**	6,050
Total non-current liabilities	**10,006**	21,193
Less:		
Long-term debt	**(4,186)**	(7,779)
Total long-term financial liabilities, excluding long-term debt	**5,820**	13,414

Net cash

Net cash is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. 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 defined as cash and cash equivalents less total long-term debt.

The following tables provide a quantitative reconciliation of cash, as disclosed in the consolidated statements of financial position, to net cash as at June 30, 2022 and December 31, 2021:

($ thousands)	As at June 30, 2022	 December 31, 2021
Cash	**15,098**	12,037
Less:		
Long-term debt [1]	**(7,940)**	(8,075)
Net cash	**7,158**	3,962

[1] Long-term debt includes current portion of $3,754 (Q4-2021: $296) and non-current portion of $4,186 (Q4-2021: $7,779)

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, long-term improvement in Canadian oil and gas pricing, impact of high commodity prices on demand for and market prices for the Corporation’s services; continued impact of the Covid-19; ability to prioritize a strong balance sheet and liquidity position; improved activity in PNG through 2022 and beyond; modest improvement in the Corporations activity in Canada; opportunities to invest and enhance shareholder value; improving economic environment; climate and weather predictions and their effect on energy demand; 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; customer activity to boost production; expectations regarding the Corporation’s ability to raise capital and manage its debt obligations; estimated capital expenditure programs; projections of market prices and costs; continued tightening of supply of services in Canada; assets held for sale relating to the Sale Transactions; estimated impairment; 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 key customers; treatment under governmental regulatory regimes and political uncertainty and civil unrest; a final Papua LNG investment decision; development of the P’nyang gas field; developments in Ukraine; effect of economic and trade sanctions on Russia; OPEC’s ability and desire to increase future production; development of additional pathways to market in Canada, and a shift in political focus from energy transition to energy security; 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
CAD	- Canadian dollars
CAOEC	- Canadian Association of Oilwell Energy 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	- Liquified natural gas
MD&A	- Management discussion and analysis
mmbtu	- Million British thermal units
NATO	- North Atlantic Trade Organization
NCIB	- Normal course issuer bid
OECD	- Organization for Economic Cooperation and Development
OPEC	- Organization of petroleum exporting countries
PGK	- Papua New Guinea kina
PNG	- Papua New Guinea
TRIFR	- Total Recordable Incident Frequency Rate
US	- United States
USD	- United States dollars
WCS	- West Canada Select
WCSB	- Western Canadian sedimentary basin
WTI	- West Texas Intermediate