HIGH ARCTIC ENERGY SERVICES

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE MONTHS ENDED
March 31, 2023 and 2022

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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 May 11, 2023 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes for the three-months ended March 31, 2023 and 2022 (the "**Financial Statements**") and the audited consolidated financial statements and notes for the years ended December 31, 2022 and 2021. Additional information relating to the Corporation including the Corporation's Annual Information Form ("**AIF**") for the year ended December 31, 2022, is available under the Corporation's profile on SEDAR at www.sedar.com. This MD&A and the Financial Statements were reviewed by High Arctic's Audit Committee and approved by the Board of Directors on May 11, 2023. All amounts are expressed in thousands of Canadian dollars ("**CAD**").

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 pages 13-16 under the "Non-IFRS Measures" section. Please refer to abbreviations listed on the last page of this MD&A.

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 conducts its business operations in three separate operating segments: Drilling Services, Ancillary Services and Production Services. The majority of the Corporation's legacy Production Services operating segment was disposed of through two transactions with effect during the third quarter of 2022. These operating segments are 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 one rig managed by High Arctic under operating and maintenance contracts for one of the Corporation's customers.

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. The rentals business in Canada is primarily focused on pressure control.

Production Services

On July 27, 2022 the Corporation closed the sale of all the assets of High Arctic's Canadian well servicing business (the "Well Servicing Transaction"). Additionally, on July 27, 2022, the Corporation closed the sale of its Canadian snubbing business (the "Snubbing Transaction") to Team Snubbing Services Inc. ("Team Snubbing"), a private entity. Subsequent to the closing of the Well Servicing Transaction and Snubbing Transaction, remaining Production Services assets include the Corporation's snubbing assets in the US, its equity investments in Team Snubbing and Seh Chene, and its heli-portable workover rig in PNG.

Corporate

The Corporate segment consists of High Arctic's remaining business including equity investments, monetary investments and borrowings, executive leadership, and certain corporate administrative services.

In the following discussion, the three-months ended March 31, 2023 may be referred to as the "**Quarter**" or "**Q1-2023**". The comparative three-months ended March 31, 2022 may be referred to as "**Q1-2022**". References to other quarters may be presented as "**QX-20XX**" with X being the quarter/year to which the commentary relates.

Intention to Return Capital and Reorganize

On May 11, 2023, the Corporation announced that the Board of Directors intends to recommend to shareholders a tax-free cash return of capital equal to $38.2 million relating to the sale of Canadian Well Servicing. The Board further intends to recommend a reorganization of the Corporation at a special meeting of the Shareholders to be held before the end of September 2023. The recommendation to reorganize is expected to include the following elements:

- a spinoff of the international business to shareholders as a private company,
- maintaining the Canadian publicly listed company focused on growing the Canadian business and utilizing the available $130 million non-capital tax loss carryforwards, and
- right sizing the general and administrative infrastructure to align with the new structure.

The Corporation is working with DLA Piper as legal advisor on the reorganization plan and is in discussions with financial advisors to facilitate the reorganization, the completion of which is subject to all applicable regulatory approvals.

2023 First Quarter Highlights

- PNG Rig 103 resumed drilling operations towards end of Quarter under a 3-year contract renewed in August 2022.
- Achieved oilfield services operating margins as a percent of revenue of 32.3% on revenues of $9.5 million.
- Generated funds flow from operations of $1.4 million and incurred capital expenditures of $0.4 million.
- Improved liquidity with a working capital balance of $59.7 million, increased cash balance of $46.7 million, and long-term debt of $4.0 million.
- After the final payment from the sale of Well Servicing, the Board of Directors is assessing the merit of a substantive cash return to shareholders including the optimal capital and cost structure.

Select Comparative Financial Information

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

	For the three-months ended March 31	
($ thousands, except per share amounts)	**2023**	2022
Revenue	**9,525**	28,696
Net loss	**(625)**	(2,671)
Per share (basic and diluted) (2)	***(0.01)***	*(0.05)*
Oilfield services operating margin (1)	**3,073**	5,310
Oilfield services operating margin as a % of revenue (1)	***32.3%***	*18.5%*
EBITDA (1)	**1,317**	2,944
Adjusted EBITDA (1)	**962**	2,884
Adjusted EBITDA as % of revenue (1)	***10.1%***	*10.1%*
Operating loss	**(1,972)**	(2,818)
Cash flow from operating activities	**373**	300
Per share (basic and diluted) (2)	***0.01***	*0.01*
Funds flow from operations (1)	**1,356**	2,243
Per share (basic and diluted) (2)	***0.03***	*0.05*
Capital expenditures	**396**	1,582

	As at	
($ thousands, except share amounts)	**March 31, 2023**	December 31, 2022
Working capital (1)	**59,678**	59,461
Cash and cash equivalents	**46,745**	19,559
Total assets	**132,123**	133,957
Long-term debt	**3,982**	4,028
Total long-term financial liabilities, excluding long-term debt	**4,324**	4,881
Shareholders' equity	**113,992**	115,231
Per share (basic and diluted) (2)	***2.34***	*2.37*
Common shares outstanding	**48,673,568**	48,691,864

(1) Readers are cautioned that Oilfield services operating margin, EBITDA (Earnings before interest, tax, depreciation and amortization), Adjusted EBITDA, Funds flow from operations, oilfield services operating margin, and working capital do not have standardized meanings prescribed by IFRS – see "Non-IFRS Measures" for calculations of these measures.

(2) The number of common shares used in calculating net loss per share, cash flow from (used in) operating activities per share, funds flow from operations per share, dividends per share and shareholders' equity per share is determined as explained in Note 9(b) of the Financial Statements.

Outlook

The Corporation exits Q1 2023 with an overcapitalized balance sheet having collected the remaining proceeds from the Well Servicing Transaction. This positions High Arctic with a reduced business footprint compared to a year ago and a substantial working capital position.

High Arctic is at a strategic crossroads. Having liquidated our underperforming well servicing business in Canada, the Company remains focused on the positive opportunities in PNG. Reinvestment in Canada remains competitive in our area of expertise, and further Canadian service sector consolidation is needed to balance supply with customer demand over the business cycle.

Accordingly, the Corporation has announced an intention to make a $38.2 million cash return of capital to shareholders and an intention to reorganize the legal entity structure.

The opportunities for growth in PNG include: building on the return to drilling operations of Rig 103, deploying idle heli-portable drilling rigs 115 and 116; supply services to the Papua-LNG project; and, the substantive need for workers and machinery necessary for the contemplated major capital and infrastructure projects. Our optimism is underpinned by the advancement of the TotalEnergies led Papua-LNG project with the announcement last week of upstream facilities FEED contract award. The project is expected to be followed by the P'nyang gas field development in the Western Province of PNG, which is anticipated to result in the addition of further gas liquefaction capacity in the world class PNG-LNG export facility. State owned Kumul Petroleum is advancing appraisal of other gas discoveries in PNG and have recently stated their desire to contribute to growing domestic energy needs and additional LNG export processing facilities.

High Arctic maintains a presence in the Canadian market, through its investments in Team Snubbing, HAES rentals and nitrogen pumping operations. Each of these positively contributed to High Arctic's Q1-2023 results, We continue to evaluate opportunities for investment as they arise in the Canadian market, while remaining attentive to opportunities to best realize a return on the investments in our existing Canadian service lines, and the inactive snubbing assets in the USA.

2023 Strategic Objectives

High Arctic's 2023 Strategic Objectives build on the platform we created in 2022, and include:

- Safety excellence and quality service delivery,
- Return idled assets in PNG to service,
- Scaling our Canadian business,
- Opportunities for growth and corporate transactions that enhance shareholder value, and
- Examination of the Corporation's optimal capital and overhead structure.

Discussion of Operations

First Quarter 2023 Summary:

- For the three-month period ended March 31, 2023, High Arctic's consolidated revenues declined 67% to $9,525 compared to Q1-2022 as 2023 reflects the elimination of the well servicing and snubbing businesses.
- A net loss of $625 in Q1-2023 compares to a net loss of $2,671 in Q1-2022 with the reduction mainly due to a smaller operational footprint comprised of returning of rig work in our PNG market, interest income, deferred income tax recovery and investment income earned on the Corporation's investment in Team Snubbing.
- Oilfield services operating margins improved as a percent of revenue of from 18.5% in Q1-2022 to 32.3% in the Quarter. This improvement is primarily a result of the Sales Transactions in 2022 that saw the disposal of the underperforming Production Services assets which historically had the lowest operating margins (as a percentage of revenue) for High Arctic.
- In January 2023, High Arctic received the final cash proceeds of $28,000 from Well Servicing Transaction and as a result the cash and cash equivalents on hand at March 31, 2023 totaled $46,745 an increase of $27,186 from the December 31, 2022 balance of $19,559.

Operating Results

Drilling Services Segment

	Three-months ended March 31	
($ thousands, unless otherwise noted)	**2023**	2022
Revenue	**6,276**	9,574
Oilfield services expense	**5,085**	7,477
Oilfield services operating margin [(1)]	**1,191**	2,097
Operating margin (%)	***19.0%***	*21.9%*

(1) See "Non-IFRS Measures"

Revenues of $6,276 in the quarter declined by $3,298 or 34% from $9,574 in Q1-2022 primarily as a result of lower rig utilization in 2023 for PNG. Rig 115 was active for the majority of Q1-2022 compared to Q1-2023 when Rig 103 started drilling operations in the last month of the Quarter. Field activities were achieved without a recordable incident building on the over 6 years and 3.15 million hours worked without a recordable incident in PNG.

The 19.0% operating margin as a percent of revenues were lower in Q1-2023 relative to the 21.9% achieved in Q1-2022 primarily due to higher margins achieved with Rig 115 utilized in 2022 versus margins associated with Rig 103 in 2023.

In PNG, the Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) which have been preserved and maintained and ongoing activities are readying the assets for deployment. In March 2023, Rig 103 recommenced drilling operations pursuant to a long-term contract on with a major oil and gas exploration customer in PNG.

Ancillary Services Segment

	Three-months ended March 31	
($ thousands, unless otherwise noted)	**2023**	2022
Revenue	**3,249**	4,725
Oilfield services expense	**1,367**	1,756
Oilfield services operating margin [(1)]	**1,882**	2,969
Operating margin (%)	**57.9%**	62.8%

(1) See "Non-IFRS Measures"

The Ancillary services segment consists of High Arctic's oilfield rental equipment in Canada and PNG, its heli-portable workover rig in PNG and its Canadian nitrogen services. Subsequent to the Sale Transactions, rental equipment in Canada is primarily made up of oilfield pressure-control equipment.

For the three-months ended March 31, 2023, Ancillary Services revenues and oilfield service operating margin decreased by $1,476 and $389, respectively, relative to Q1-2022 due primarily to High Arctic selling its hydraulic catwalks and other equipment as part of the Well Servicing Transaction.

General and Administrative ("G&A")

	Three-months ended March 31	
($ thousands, unless otherwise noted)	**2023**	2022
G&A	**2,067**	2,426
% of revenue	**21.7%**	8.5%

G&A costs for Q1-2023 decreased by $359 when compared to Q1-2022 due primarily to the consolidation of administration and overhead roles and services following the Sale Transactions. G&A costs as a percent of revenue were higher at 21.7% compared to 8.5% as a result of a lower revenue base in Q1-2023. Throughout 2023 the Corporation plans to focus on reducing, repositioning and right-sizing G&A costs to take into account the reduced size and location of the remaining businesses.

Depreciation

Depreciation expense on property and equipment and right-of-use assets totaled $2,792 in Q1-2023 compared to $5,564 during Q1-2022. As a result of the Sales Transactions net book value of High Arctic's assets was reduced by $48,970 or 45%, a significant reduction in depreciable assets which has reduced depreciation.

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 in Q1-2023 of $186, relative to the Q1-2022 expense of $138 due primarily to the higher level of units outstanding and re-invested dividends under the Corporation's Performance Share Unit Plan and Deferred Share Unit Plan versus Q1-2022.

Interest and Finance Expense

	Three-months ended March 31	
($ thousands)	**2023**	2022
Interest expense and standby fees	**48**	125
Accretion of note receivable	**(44)**	-
Lease finance expense	**15**	88
Other	**21**	12
Total	**40**	225

In December 2021, the Corporation obtained long-term mortgage financing of $8,100 on certain High Arctic owned land and buildings in Canada. As part of the Sale Transactions $3,565 principal was paid in December 2022, resulting in a reduced mortgage liability and lower interest expense in Q1-2023. As at March 31, 2023 the mortgage principal balance was $4,158.

As part of the Snubbing Transaction, the Corporation received a convertible promissory note for $3,365 with a five-year term, annual interest of 4.5% accruing from January 1, 2023, and principal payments commencing in July 2024. The carrying value is being adjusted for accretion over the term of the note with $44 recorded during Q1-2023 (Q1-2022 - $nil).

Finance expense on lease liabilities associated with the time value of money for the three-month period ended March 31, 2023 was $15 (Q1-2022 - $88), as the liability is initially recorded at its present value. Lower finance expense on lease liabilities is due to the disposal of a majority of the leases, including the lease of the Acheson facility, as part of the Well Servicing Transaction.

Interest income from idle cash invested in high interest accounts and Guaranteed Investment Certificates totalled $417 during Q1-2023. At March 31, 2023 the Corporation has invested $33,345 in GIC's earning 3.75% – 4.94% and $5,101 in a high interest account with a floating rate of 3.45%

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

Other Comprehensive Gain (Loss)

The Corporation recorded a $45 foreign currency translation loss in other comprehensive loss for the Q1-2023 (Q1-2022: $918 loss) associated with subsidiaries with functional currencies other than CAD.

The CAD weakened slightly when compared to the USD at March 31, 2023, relative to December 31, 2022, and this resulted in a net loss on the net assets held in the subsidiaries with USD as their functional currency.

Liquidity and Capital Resources

	Three-months ended March 31	
($ thousands)	**2023**	2022
Cash flow from (used in):		
Operating activities	**373**	300
Investing activities	**27,768**	(418)
Financing activities	**(964)**	(521)
Effect of exchange rate changes on cash	**9**	44
Increase (decrease) in cash	**27,186**	(595)

($ thousands, unless otherwise noted)	**As at** **March 31** **2023**	December 31 2022
Current assets	**69,448**	$69,278
Working capital (1)	**59,623**	59,461
Working capital ratio (1)	**7.1:1**	*7.1:1*
Cash and cash equivalents	**46,745**	19,559
Net cash (1)	**42,587**	15,345

(1) See “Non-IFRS Measures”

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 our contracts to be settled in USD on a contract-by-contract basis, however, there is no assurance the Bank of PNG 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, all such approvals have eventually been received in the past.

Operating Activities

In Q1-2023, cash generated from operating activities was $373 comparable to the Q1-2022 cash generated from operating activities of $300. Funds flow from operations totaled $1,356 in the Quarter (Q1-2022: $2,243), see “Non-IFRS Measures”, and $983 cash outflow from working capital changes (Q1-2022: $1,943).

Investing Activities

During Q1-2023, the Corporation's cash from investing activities was $28,232 (Q1-2022: $418 cash used in investing activities) reflecting the receipt of the final cash proceeds of $28,000 from the Well Servicing Transaction. Capital expenditures were $396 (Q1-2022: $1,582) partially offset by $130 proceeds on disposal of property and equipment (Q1-2022: $1,037), and $34 cash inflow relating to working capital balance changes for capital items (Q1-2022: $127).

Financing Activities

In Q1-2023, the Corporation's cash used in financing activities was $964 (Q1-2022: $521). During the Quarter, the Corporation paid $730 in dividends (Q1-2022 $nil), $56 (Q1-2022: $54) towards principal payments on its mortgage financing (see “Mortgage Financing below”) and $153 lease liability payments (Q1-2022: $467).

Mortgage Financing

	As at **March 31, 2023**	As at December 31, 2022
Current	**176**	186
Non-current	**3,982**	4,028
Total	**4,158**	4,214

During December 2021, the Corporation entered into a mortgage financing arrangement for $8,100, secured by lands and buildings owned and occupied by High Arctic within Alberta, Canada. 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 Well Servicing Transaction included the sale of certain Corporation owned land and buildings. In December 2022, the Corporation repaid mortgage principal of $3,565 associated with these properties. In January 2023 the Corporation transferred title to real estate locations to the purchaser of the Well Servicing business.

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.

Commitments and Contingencies

As part of the Corporation's contractual rig management and operations, the Corporation has been supplied equipment and an inventory of spare parts with a total value of $8,303 at March 31, 2023 (December 31, 2022 - $8,309) by a customer for the Corporation's operations in PNG, the underlying value is denominated in USD. The capital equipment and inventory are owned by this party and have not been recorded on the books of High Arctic. Written notice is required to end the contract. When notice to terminate is communicated, the Corporation must return the balance of capital equipment and inventory and make a payment to the customer equivalent to any shortfall. As at, March 31, 2023 the Corporation has recorded a current obligation of $3,333 (December 31, 2022 - $3,270) as a result of consuming third-party owned inventory in operations which it is required to replenish on or prior to the termination of the contractual arrangement.

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.

	Three-months ended March 31, 2023		Year ended December 31, 2022	
Common shares issued and outstanding:	**Shares**	**Amount**	Shares	Amount
Balance, beginning of period	**48,691,864**	**$ 169,554**	48,733,145	$ 169,697
Purchase of common shares for cancellation	**(18,296)**	**(64)**	(41,281)	(143)
Balance, end of period	**48,673,568**	**$ 169,490**	48,691,864	$ 169,554

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

On December 13, 2022, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 750,000 common shares, or approximately 1.5 percent of the Corporation's outstanding shares, under a Normal Course Issuer Bid ("NCIB"). The NCIB is valid for one year, commencing on December 15, 2022 and terminating on December 14, 2023. Pursuant to this NCIB no shares were purchased and cancelled in 2022. During 2023, a total of 18,296 shares have been purchased pursuant to this NCIB and cancelled.

The Corporation's previous NCIB commenced on December 15, 2021 and terminated on December 14, 2022. Pursuant to this previous NCIB, 16,376 common shares were purchased and cancelled in 2022.

At March 31, 2023, 233,500 stock options were outstanding at an average exercise price of $1.38 per share, as well as 889,110 units under the Corporation's Performance Share Unit Plan and 1,168,176 units under the Deferred Share Unit plan were outstanding.

No common shares have been issued from March 31, 2023 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:

($ thousands, except per share)	2023	2022				2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**9,525**	13,099	12,519	25,706	28,696	23,644	18,654	16,377
Adjusted EBITDA(1)(2)	**962**	(892)	572	3,100	2,884	1,836	1,412	796
Net loss (2)	**(625)**	(9,103)	(4,546)	(20,263)	(2,671)	(4,608)	(4,784)	(4,018)
Per share – basic and diluted	**(0.01)**	*(0.19)*	(0.09)	(0.42)	(0.05)	(0.10)	(0.10)	(0.08)
Cash flow from (used in) operating activities	**373**	501	942	6,120	300	(3,472)	737	2,023
Funds flow from (used in) operations(1)	**1,356**	(8,039)	196	2,620	2,243	1,390	1,077	640

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

Revenue declined in Q1-2023 relative to Q4-2022 as the prior quarter included additional revenue from the delivery of a top drive to customer owned Rig 103 in PNG. Adjusted EBITDA and Net loss both improved sequentially from Q4-2022 primarily as Q4-2022 included the inventory adjustments of $3.9 million relating to stock held in PNG.

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.

	2023	2022				2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oil and LNG prices - Averages for each period:								
Brent Crude Oil (USD $/bbl)(1)	76	89	98	112	97	80	73	69
Japan LNG (USD $/mmbtu)(2)	18.87	20.67	20.60	17.07	16.57	13.47	11.68	8.75
USD/CAD exchange rate(1)	1.35	1.35	1.37	1.29	1.25	1.26	1.26	1.23

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

Pricing for oil and natural gas production in PNG is generally tied to world prices such as Brent Crude and Japan LNG, which rebounded strongly from lows experienced in 2020 and early 2021 when global demand was negatively impacted by COVID-19. Current commodity price levels provide a sustainable environment in which to invest in exploring for and developing new oil and gas reserves.

More recently global commodity prices have retreated from their 2022 highs. In the Quarter Brent Crude Oil price average decreased 15% to USD $76/bbl and Japanese LNG prices declined 9% to USD 18.87/mmbtu. Both commodities were impacted by softening demand as many larger economies continued to slow, fears of evolving global recession continued, and fears of winter gas shortages in Europe and Asia receded.

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 relatively flat from Q4-2022 to Q1-2023 which resulted in nominal foreign exchange effects on the Corporation's financial results for the Quarter.

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.

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.

	2023	2022				2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Oil and natural gas prices								
($ Average for each the period):								
West Texas Intermediate ("WTI") (USD $/bbl)[1]	76	83	92	108	94	77	71	66
West Canada Select ("WCS") (CAD $/bbl)[1]	75	77	94	122	101	79	72	67
Canadian Light Sweet Oil ("CLS") (CAD $/bbl)[1]	100	108	117	136	118	92	84	76
AECO (CAD $/MMbtu)[1]	3.23	5.24	4.46	7.26	4.77	4.74	3.75	3.07

(1) Source: Sproule

In Q1-2023, and consistent with the second half of 2022, WTI, WCS and CLS average prices retreated further from significant highs seen in Q2-2022 as demand retreated amid recessionary fears. WCS and CLS average prices continued to fall, with these Canadian average oil prices decreasing over 5%.

In Canada, industry activity remained strong and was higher in Q1-2023 relative to Q1-2022, as commodity prices remained profitable assisted by the favourable USD/CAD exchange rate and stimulated by the recommencement of activity on the lands of the Blueberry First Nation, and the nearing horizon for the completion of Transmountain pipeline expansion and LNG Canada production. These projects will go someway to address the lack of take away pipeline capacity and stands to improve global market access over the coming years. Further opportunity is bolstered by a shift in political focus from energy transition to energy security to justify up-front industry investment.

Financial Risk Management

The Corporation's financial instruments have the following foreign exchange exposure at March 31, 2023:

($ thousands)	USD [1]	PGK [2]	Australian Dollars ("AUD") [3]
Cash	1,752	7,952	426
Accounts receivable	5,061	7,472	-
Accounts payable and accrued liabilities	(989)	(1,689)	-
Total – Canadian Dollars	5,824	13,735	426

(1) As at March 31, 2023, one USD was equivalent to 1.35 CAD.
(2) As at March 31, 2023, one PGK was equivalent to 0.38 CAD.
(3) As at March 31, 2023, one AUD was equivalent to 0.91 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 three large multinational/regional customers who individually accounted for greater than 10% of its consolidated revenues during the three-months period ended March 31, 2023 with sales of $4,349, $1,326, and $1,302, respectively (2022: three customers with revenues of $7,789, $4,574 and $2,983 respectively).

As at March 31, 2023, these three customers represented a total of $7,621 or 68% of outstanding accounts receivable (December 31, 2022: two customers represented a total of $6,415 or 58% of outstanding accounts receivable).

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

($ thousands)	**As at March 31, 2023**	As at December 31, 2022
Less than 31 days	**5,341**	3,049
31 to 60 days	**3,172**	2,636
61 to 90 days	**887**	2,173
Greater than 90 days	**1,793**	3,279
Provision for expected credit losses	**(32)**	(45)
Total	**11,161**	11,092

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, and contraction of available capital and reliance on continued fiscal and monetary support 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 bankers and other creditors. The Corporation seeks to manage its financing based on the results of these processes.

Subsequent to the closing of the Sale Transactions, the Corporation's revolving credit facility was terminated. 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 Papua New Guinea 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, 2022.

The impact of the conflict between Russia and Ukraine, as well as other significant political and economic developments, are discussed in "Political developments and impact on estimation uncertainty" in Note 2 Basis of Presentation in the Financial Statements. Additionally, there are constantly evolving regulations related to emissions, carbon, and climate matters that impact Environmental, Social & Governance (ESG) and climate reporting. To address these concerns, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard aimed at developing globally consistent, comparable, and reliable sustainability disclosure standards. Furthermore, the Canadian Securities Administrators have proposed a national instrument 51-107 Disclosure of Climate-related Matters. There is significant uncertainty regarding expected policies to be enforced by large governmental bodies in relation to oil and gas production. The cost to comply with these standards and potential future regulations has not been quantified.

While the trend towards recovery in the energy industry remains promising, the focus on supply balance for oil and gas producers is still necessary. Further, there are significant challenges related to meeting climate change emission targets. These political developments can impact High Arctic as it pursues its strategy and allocates resources to support its principal markets in PNG and Canada. In Canada, the Corporation's customers are driven by oil and natural gas production, while in PNG, customers are restarting drilling operations, and new LNG supply is being considered.

The global focus on addressing climate change has also led to a rotation of investment capital away from the oil and gas industry in certain markets, which could increase High Arctic's cost of capital and reduce its access to growth funding. The direct and indirect costs of climate change policy on High Arctic and its customers remain uncertain, and this may have an adverse impact on the Corporation and its customers. Additionally, it creates uncertainty regarding the estimated useful life and impairment of property and equipment.

At March 31, 2023, High Arctic determined that no indicators of impairment existed within the Corporation's CGUs.

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

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. There have been no changes to High Arctic's internal controls over financial reporting during the three months ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

For information regarding the corporate governance policies and practices of High Arctic, the reader should refer to the High Arctic's 2022 Annual Report, High Arctic's Annual Information Form dated March 28, 2023 in respect of the year ended December 31, 2022, and High Arctic's Information Circular in respect of the May 11, 2023 Annual General and Special Meeting of shareholders each of which are available under the Corporation's profile on SEDAR at www.sedar.com.

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, 2022 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.

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, equity earnings from investments, 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 loss in accordance with IFRS.

The following table provides a quantitative reconciliation of consolidated net loss, as disclosed in the consolidated statements of loss and comprehensive loss, to EBITDA and Adjusted EBITDA for the three-months ended March 31, 2023 and 2022:

	Three-months ended March 31	
($ thousands)	**2023**	2022
Net loss	**(625)**	(2,671)
Add:		
Interest income	**(417)**	-
Finance expense	**40**	225
Income tax recovery	**(473)**	(174)
Depreciation	**2,792**	5,564
EBITDA	**1,317**	2,944
Adjustments to EBITDA:		
Share-based compensation	**186**	138
Investment income	**(417)**	(93)
Gain on sale of property and equipment	**(130)**	(77)
Foreign exchange loss (gain)	**6**	(28)
Adjusted EBITDA	**962**	2,884

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 understanding 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. The table disclosed in oilfield services operating margin % below provides a quantitative reconciliation of revenue, as disclosed in the consolidated statements of loss and comprehensive loss, to oilfield services operating margin and oilfield operating margin % for the three-months ended March 31, 2023 and 2022:

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 %:

	Three-months ended March 31	
($ thousands, unless otherwise noted)	**2023**	2022
Revenue	**9,525**	28,696
Less:		
Oilfield services expense	**6,452**	23,386
Oilfield services operating margin	**3,073**	5,310
Oilfield services operating margin %	***32.3%***	*18.5%*

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-months ended March 31, 2023 and 2022:

	Three-months ended March 31	
($ thousands)	**2023**	2022
Revenue	**9,525**	28,696
Less:		
Oilfield services expense	**6,452**	23,386
General and administrative expense	**2,067**	2,426
Depreciation	**2,792**	5,564
Share-based compensation	**186**	138
Operating loss	**(1,972)**	(2,818)

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 flow from operations

Funds flow 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 flow from operations is defined as net cash generated (used in) 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 generated from operating activities before changes in non-cash working capital adjustments ("**funds flow 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 generated from (used in) operating activities, as disclosed in the consolidated statements of cash flows, to funds flow from (used in) operations for the three-months ended March 31, 2023 and 2022:

	Three-months ended March 31	
($ thousands)	**2023**	2022
Net cash generated from operating activities	**373**	300
Less:		
Changes in non-cash working capital balances - operating	**(983)**	(1,943)
Funds Flow From Operations	**1,356**	2,243

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 March 31, 2023 and December 31, 2022:

	As at	
($ thousands)	**March 31, 2023**	December 31, 2022
Current assets	**69,448**	$69,278
Less:		
Current liabilities	**(9,825)**	(9,817)
Working capital	**59,623**	$59,461
Working capital ratio	**7.1:1**	*7.1:1*

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	
($ thousands)	**March 31 2023**	December 31, 2022
Cash and cash equivalents	**46,745**	19,559
Less:		
Long-term debt [1]	**(4,158)**	(4,214)
Net cash	**42,587**	15,345

[1] Long-term debt includes current portion of $176 (Q4-2022: $186) and non-current portion of $3,982 (Q4-2021: $4,028)

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, continued improvement in energy services outlook; continued impact of Russia-Ukraine conflict; the impacts of Covid-19; opportunities to invest and enhance shareholder value; 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 manage its liquidity risk; raise capital and manage its debt finance agreements; 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 its major customers; the potential substantive return of capital to the Corporation’s shareholders; the Corporation’s ability to achieve an optimal capital and legal structure; optimism surrounding the opportunities in the PNG energy sector and increasing future demand for our equipment, personnel, and expertise; the eventual construction of the Papau-LNG project and development of the P’nyang gas field; expectations of Rig 103 to operate consistently through the term of its contract; returning idled assets in PNG to service; scaling the Canadian business; executing on one or more corporate transactions and estimated credit risks and the utilization of 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: maintain its ongoing relationship with major customers; successfully market its services to current and new customers; devise methods for, and achieve its primary objectives; source and obtain equipment from suppliers; successfully manage, operate, and thrive in an environment which is facing much uncertainty; remain competitive in all its operations; attract and retain skilled employees; and obtain equity and debt financing on satisfactory terms.

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
US	- United States
USD	- United States dollars
WCS	- West Canada Select
WCSB	- Western Canadian sedimentary basin
WTI	- West Texas Intermediate