MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED
June 30, 2023 and 2022

AMENDED AND RESTATED

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For the Three and Six-months Ended June 30, 2023 and 2022

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 November 6, 2023 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, 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 Amended and Restated Annual Information Form dated November 6, 2023 ("**AIF**") for the year ended December 31, 2022, is available under the Corporation's profile on SEDAR at www.sedarplus.ca. This MD&A was reviewed by High Arctic's Audit Committee and approved by the Board of Directors on November 6, 2023. The Corporation originally issued its MD&A for the three and six-month period ended June 30, 2023 and 2022 on August 3, 2023. This MD&A was re-issued to clarify disclosures regarding the assets currently included in the Corporation's Production Services segment. 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 under the "Non-IFRS Measures" section of this MD&A. Please refer to abbreviations listed on the last page of this MD&A.

In the following discussion, the three-months ended June 30, 2023 may be referred to as the "**Quarter**" or "**Q2-2023**". The comparative three-months ended June 30, 2022 may be referred to as "**Q2-2022**". References to other quarters may be presented as "**QX-20XX**" with X being the quarter/year to which the commentary relates.

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 in Canada under the symbol "HWO".

High Arctic conducts its business operations in three separate operating segments: Drilling Services, Ancillary Services and Production Services. These operating segments are supported by a Corporate segment.

It is important to highlight that a significant portion of the Production Services segment asset base was sold through two asset sale transactions during the third quarter of 2022. Subsequent to these disposals the Corporation retained meaningful assets in its Production Services segment, as of June 30, 2023, through its investment of $3,638 in property and equipment and $7,682 in equity investments. High Arctic carries on with operations through its snubbing assets located in Colorado, US, hydraulic workover rig assets located in PNG and its 49% investment in Seh' Chene Well Services Limited Partnership ("Seh' Chene Partnership") in Canada. In addition, the Corporation has maintained snubbing services investment in Canada by obtaining a 42% equity interest in Team Snubbing Service Inc. ("Team Snubbing", a private entity) as a result of the transactions.

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

Discontinued Operations – Nitrogen Assets

On July 31, 2023, the Corporation closed the sale of its Canadian nitrogen assets previously included in its Ancillary Services segment. A majority of personnel supporting the nitrogen operations also departed the Corporation and moved over to the acquirer. As a result, the Corporation has exited the nitrogen line of business and accordingly, for the three and six-month periods presented in this MD&A, the operating results of the Corporation's nitrogen assets have been presented as discontinued operations.

Production Services

The Production Services segment consists of High Arctic's workover equipment in PNG, snubbing assets in the United States and strategic equity investments in snubbing and well servicing businesses operating primarily in Canada.

As referenced above, on July 27, 2022 the Corporation closed the sale of certain assets of High Arctic's Canadian well servicing operations (the "Well Servicing Transaction") and at the same time closed the sale of Canadian snubbing services assets to Team Snubbing (the "Snubbing Transaction"). The sale of these assets represented the Corporation's steady and recurring Canadian direct revenue streams included in the Production Services operating segment. As a result of this transaction, the Corporation's Canadian production services revenue generating activities will now primarily be recognized through its acquired 42% strategic equity investment in Team Snubbing, rather than through direct ownership of the Canadian snubbing assets. As such, the Production Services operating segment will have indirect revenue recognized as income from the equity investment. After these disposals, the Corporation retains its snubbing assets in the USA and its heli-portable workover rig in PNG, however revenue generated from these assets can be intermittent in nature. High Arctic also continues with its Production Services operations and indirect revenue generating activities through its interest in the Seh' Chene Partnership.

Corporate

The Corporate segment supports High Arctic's operations, with monetary investments and borrowings, and provides executive leadership, and certain corporate administrative services.

2023 Second Quarter Highlights

- Achieved full drilling utilization of PNG Rig 103 during the Quarter, pursuant to a 3-year contract that was renewed in August 2022.
- Generated EBITDA from continuing operations of $3.8 million on revenues of $17.2 million, funds flow from continuing operations of $3.9 million and incurred capital expenditures of $0.7 million.
- Improved liquidity with a working capital balance of $61.8 million, which includes a cash balance of $45.4 million, and long-term debt of $4.0 million, and
- Announced the sale of the Corporation's Canadian Nitrogen transportation, hauling and pumping services business for cash consideration of $1.35 million.

Select Comparative Financial Information

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

(unaudited)	For the three months ended June 30		For the six months ended June 30	
($ thousands, except per share amounts)	**2023**	2022	**2023**	2022
Operating Results – Continuing Operations				
Revenue(3)	**$ 17,234**	$ 25,023	**$ 26,005**	$ 53,146
Net income (loss)	**89**	(20,230)	**(541)**	(22,803)
per share - basic (2)	***0.00***	*(0.42)*	***(0.01)***	*(0.47)*
per share - diluted (2)	***0.00***	*n/a*	***n/a***	*n/a*
Oilfield services operating margin (1)(3)	**6,466**	5,776	**9,359**	11,004
Oilfield services operating margin as a % of revenue (1)	***37.5%***	*23.1%*	***36.0%***	*20.7%*
EBITDA (1)	**3,805**	(5,895)	**5,057**	(3,003)
Adjusted EBITDA (1)	**4,413**	2,979	**5,354**	5,814
Adjusted EBITDA as % of revenue (1)	***25.6%***	*11.9%*	***20.6%***	*10.9%*
Operating income (loss)	**$ 1,296**	$ (3,081)	**$ (681)**	$ (5,801)
Cash Flow – Continuing Operations				
Cash flow from continuing operations	**$ 1,082**	$ 6,004	**$ 1,398**	$ 6,249
Per share – basic and diluted (2)	***0.02***	*0.12*	***0.03***	*0.13*
Funds flow from continuing operations(1)	**3,914**	2,502	**5,205**	4,693
Per share - basic and diluted (2)	***0.08***	*0.05*	***0.11***	*0.10*
Dividend payments	**730**	487	**1,460**	487
Per share - basic and diluted (2)	***0.01***	*0.01*	***0.03***	*0.01*
Capital expenditures	**$ 702**	$ 3,134	**$ 1,098**	$ 3,280

	As at	
($ thousands, except share amounts)	**June 30 2023**	December 31, 2022
Financial Position	*(unaudited)*	
Working capital (1)	**$ 61,816**	$ 59,461
Cash	**45,419**	19,559
Total assets	**133,505**	133,957
Long-term debt	**3,939**	4,028
Long-term financial liabilities, excluding long-term debt	**5,016**	4,881
Shareholders' equity	**$ 112,082**	$ 115,231
Per share - basic (1)(2)	***2.30***	*2.37*
Common shares outstanding, thousands	**48,674**	48,691

(1) Readers are cautioned that Oilfield services operating margin, EBITDA from continuing operations (Earnings from continuing operations before interest, tax, depreciation and amortization), Adjusted EBITDA from continuing operations, Funds flow from continuing operations, oilfield services operating margin, working capital and Shareholders' equity per share - basic 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 income (loss) per share, cash flow from (used in) operating activities per share, funds flow from continuing operations per share, dividends per share and shareholders' equity per share is determined as explained in Note 10(b) of the Financial Statements.

(3) Revenue generated from the Canadian well services and snubbing assets sold in the Sale Transactions, during the three and six months ended June 30, 2022 totaled $16,079 and $31,141 respectively. Oilfield services expenses, incurred from the Canadian well services and snubbing assets sold in the Sale Transactions, during the three months and six months ended June 30, 2022 totaled $13,087 and $27,775 respectively. The Canadian snubbing assets were sold for an equity interest in the purchaser, Team Snubbing, on July 27, 2022. As a result, subsequent to this date, revenue and expenses in connection with High Arctic's 42% ownership interest in Team Snubbing are being reflected in income from equity investments.

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 efficient return of capital equal to $38.2 million relating to the Q3-2022 sale of High Arctic's Canadian well servicing assets, and a reorganization of the Corporation.

The return of capital cash payment and a purchase rights distribution are intended to affect a reorganization of High Arctic's business into two companies, with a foreign legal entity ("High Arctic International") owning the Corporation's existing PNG focused business, and High Arctic Energy Services Inc., the current ultimate parent company within the High Arctic group of companies, owning the Corporation's existing North American business (collectively the "Reorganization"). The Reorganization is intended to unlock the value of the different segments of High Arctic's business by dividing the Corporation into its distinct businesses and providing Shareholders with an opportunity to acquire a direct equity stake in High Arctic International while continuing to hold their current equity stake in High Arctic.

The Board has reserved its final decision to proceed until materials are ready to present to shareholders.

Reorganization Update:

The Corporation is working with its advisors on the reorganization plan, the completion of which will be subject to applicable regulatory and shareholder approvals.

If the reorganization proceeds, it is expected to result in:

- The payout to shareholders of $38.2 million, equivalent to approximately $0.75 per fully diluted share, by way of tax efficient return of capital distribution,
- The sale of High Arctic International to existing shareholders who opt to participate through issuance by the Corporation of a right for shareholders to purchase from the Corporation one (1) ordinary share of High Arctic Energy Services Cyprus Limited (a wholly owned subsidiary of High Arctic immediately prior to the Reorganization) for each common share held in High Arctic,
- A shareholder election process whereby shareholders can:
    - Do nothing, and receive their return of capital distribution as cash;
    - Elect to exercise their purchase rights (in full or in part);
    - Elect to use some or all of the funds to be received pursuant to the return of capital, toward the exercise of purchase rights; and
- Receipt by the Corporation of the proceeds of the sale of ordinary shares of High Arctic International.

Through this Reorganization, the Corporation aims to completely divest its ownership of High Arctic International, an unlisted company incorporated and domiciled in Cyprus that owns the Corporations interests in its foreign subsidiaries. For further information on the corporate structure refer to the Annual Information Form – for the year ended December 31, 2022, located on the High Arctic website and published on SEDAR.

The Corporation expects to announce the exercise price for the purchase of High Arctic International and complete the information memorandum in September. The potential Special Shareholder meeting is anticipated be held in October and the process concluded prior to year end.

If concluded, the Reorganization outlined above will separate the international PNG-focused business from the TSX listed Corporation. Following the reorganization, the Corporation will continue to be listed and it's remaining business will consist of:

- a Canadian rental business centered upon well pressure control;
- industrial real estate properties at Clairmont (leased to a third party) and Whitecourt in Alberta, Canada;
- a significant interest in Canada's largest oilfield snubbing services business, Team Snubbing Services Inc.;
- cash proceeds of the sale of High Arctic International; and
- approximately $130 million of non-capital tax loss carry-forwards.

Outlook

High Arctic is in a position to refocus its Canadian business. The rental business is generating solid margins and a high level of utilization which we anticipate continuing into the traditionally busier winter period. Opportunities to gain scale and underlying net profitability are a priority. Team Snubbing has utilized the customary spring break-up period to prepare additional equipment for deployment in Canada and to establish operations in Alaska through its 50% owned Team Snubbing International partnership. Both Alaskan snubbing packages are now working, with a growing order book of customer activity.

Energy security, evolving attitudes to carbon sequestration and the longevity of Canada's oil and gas industry as well as growing alternative energy industries, provide opportunities for the Corporation to prudently invest in businesses positioned to benefit. These considerations and opportunities are supported by the long-awaited pipeline expansion to tidewater which is close to being realized for both oil liquids and natural gas production. It's a positive development and sets up a favorable backdrop for relatively sustained upstream energy service demand as the world accelerates a transition to responsible production and lower emission energy consumption.

In the immediate term, the current monetary policy environment is delivering high yield fixed interest income for investment of surplus cash. The Corporation is moving forward to establish new leadership in Canada to seize high margin opportunities and set a new direction.

PNG-focused High Arctic International is maintaining cost discipline while preparing for the anticipated upswing in activity in the years ahead. Rig 103 has completed its first full quarter of drilling activity since returning to work under its operations and management contracts. In return for utilizing the rig, High Arctic International pays the customer a daily rig lease rate, and generates revenue based on the level of activity and services provided. The contract for Rig 103 was extended in 2022 to August 2025 with two 1-year options for the customer to extend the term.

The opportunities for growth in PNG include: building on drilling operations by 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.

We await the final investment decision of the TotalEnergies led Papua-LNG project expected later this year. That project is anticipated to stimulate other exploration and appraisal activity and is expected to be followed by the P'nyang gas field development in the Western Province of PNG. State owned Kumul Petroleum is advancing appraisal of other gas discoveries in PNG and discussions continue with other exploration companies towards future work.

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

Second Quarter 2023 Summary:

- Revenue for the Quarter was $17,234, a decrease of $7,789 compared to Q2-2022 at $25,023. The combined Drilling Services segment and Ancillary Services segments increased revenue by an aggregate $7,566 on the strength of PNG customer demand and the Production Services segment decreased by $16,079 with the 2022 Sale Transactions and inactivity for remaining equipment. Revenue generated from the assets sold in the Sale Transactions during Q2-2022 totaled $16,079.
- Reported adjusted EBITDA from continuing operations of $4,413 in Q2-2023, an increase of $1,434 over Q2-2022. The favourable variance was due to the full utilization of PNG Rig 103 in the Quarter, associated rentals and operational momentum with PNG drilling commencement in late Q1-2023. The Sale Transactions resulted in the removal of Canadian well servicing and snubbing assets from the low utilization "spring break-up" second quarter Production Services segment results.
- High Arctic generated net income of $89 from continuing operations in Q2-2023 compared to a net loss from continuing operations of $20,230 for Q2-2022. The return to positive net income, albeit modest, was due to positive results in PNG after having disposed of low margin Canadian well servicing and snubbing assets in the third quarter of 2022. The prior year net loss was impacted by impairment of $8,679 and a $7,921 deferred tax asset charge.
- Oilfield services operating margins improved as a percent of revenue from 23.1% in Q2-2022 to 37.5% in Q2-2023. This improvement was primarily a result of the Sales Transactions in 2022 that saw the disposal of certain Production Services segment assets.
- Supported by operational performance during the quarter High Arctic strengthened its balance sheet as working capital increased by $2,355 and $730 was returned to shareholders in the form of dividends.

Year to date June 30, 2023 Summary:

- Revenue from continuing operations for the first half of 2023 was $26,005, a decrease of $27,141 compared to the first half of 2022 at $53,146. The Drilling Services segment and Ancillary Services segments increased revenue by an aggregate $2,612 on the strength of PNG activity which gained momentum in the second quarter of 2023 and the Production Services segment decreased by $31,141 as a result of the sale of the Canadian well servicing and snubbing assets in the third quarter of 2022 and inactivity for remaining Production Services equipment. Revenue generated from the assets sold in the Sale Transactions during first half of 2022 totaled $31,141.
- Reported adjusted EBITDA from continuing operations of $5,354 in the first half of 2023, a decrease of $460 as compared to the first half of 2022. The decrease is attributable to a reduced presence in Canada with the Sale Transactions and the resulting impact primarily to the Production Services segment. The Drilling Services segment mitigated the decrease with the resumption of active drilling in PNG.
- High Arctic generated a net loss of $541 from continuing operations in YTD-2023 compared to a net loss of $22,803 in the first half of 2022. The improvement was primarily attributable to improved PNG operating results and non-cash charges associated with the prior year Sales Transactions. Specifically, YTD-2023 depreciation expense was $5,378 lower and 2022 first half results were impacted by a $8,679 equipment impairment and $7,240 deferred tax asset charge.
- Oilfield services operating margins improved as a percent of revenue from 20.7% in Q2-2022 to 36.0% in the first half of 2023. This improvement is primarily a result of the strength in Ancillary service segments and the 2022 Sales Transactions impact on Production Services segment results.
- Supported by operational performance during the first half of 2023, High Arctic strengthened its balance sheet as working capital increased by $2,355 and $1,460 was returned to shareholders in the form of dividends.

Operating Results

Drilling Services Segment

($ thousands, unless otherwise noted)	**Three months ended June 30** **2023**	2022	**Six months ended June 30** **2023**	2022
Revenue	**$ 13,437**	$ 6,101	**$ 19,713**	$ 15,675
Oilfield services expense	**9,657**	4,637	**14,742**	12,114
Oilfield services operating margin [(1)]	**$ 3,780**	**$ 1,464**	**$ 4,971**	**$ 3,561**
Operating margin (%)	***28.1%***	***24.0%***	***25.2%***	***22.7%***

(1) See "Non-IFRS Measures"

Revenues in the Quarter increased by 120% over Q2-2022 as a result of higher PNG drilling rig utilization. Customer owned Rig 103 was fully active whereas in Q2-2022 Rig 115 successfully completed a short duration project part way through the quarter. Revenues for the six months ended June 30, 2023 increased over the comparable period in 2022 also as a result of higher drilling rig utilization as the reactivation of Rig 103 pursuant to its 3-year term contract exceeded short duration work in 2022 for High Arctic owned Rig 115.

Slightly offsetting the increased revenue from the higher rig utilization was a reduced level of revenue from the provision of trained labour that High Arctic offers to its customers to assist them with other operational needs. High Arctic continues to develop its labour resourcing capabilities for customers and in 2022 benefitted from a specific customer project completed in the second half of the year.

Operating margin as a percent of revenues increased in Q2-2023 to 28.1%, or 4.1% higher than that achieved in Q2-2022. This was attributable to a full quarter of Rig 103 utilization, most of which was at drilling rates after successful move and rig-up during Q1-2023. Fixed operating costs were better absorbed in the Quarter compared to 2022.

In PNG, the Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) which have been preserved and maintained ready for deployment. Both rigs have been idle in 2023 through the first half of the year and Rig 115 operated for about the first 4 months of 2022.

Production Services Segment

($ thousands, unless otherwise noted)	**Three months ended June 30** **2023**	2022	**Six months ended June 30** **2023**	2022
Revenue	**-**	$ 16,079	**-**	$ 31,141
Oilfield services expense	**-**	13,935	**-**	28,750
Oilfield services operating margin [(1)]	**-**	$ 2,144	**-**	$ 2,391
Operating margin (%)	**-**	*13.3%*	**-**	*7.7%*

(1) See "Non-IFRS Measures"

For the three-and six-month periods ended June 30, 2023 the Production Services segment consisted of High Arctic's service-workover rig package in PNG, snubbing packages in the USA and its equity investments in Seh' Chene Partnership in Canada. While these operations generated no revenue in the three-and six-month periods ended June 30, 2023, High Arctic continues to assess and pursue market opportunities to sustain customer activity.

The Q3-2022 Sale Transactions impacted Production Services as certain assets were sold through two transactions. Revenue generated from the Canadian well services and snubbing assets sold in the Sale Transactions, during the three and six months ended June 30, 2022 totaled $16,079 and $31,141 respectively. Oilfield services expenses, incurred from the Canadian well services and snubbing assets sold in the Sale Transactions, during the three months and six months ended June 30, 2022 totaled $13,087 and $27,775 respectively. The Canadian snubbing assets were sold for an equity interest in the purchaser, Team Snubbing, on July 27, 2022. As a result, subsequent to this date, revenue and expenses in connection with High Arctic's 42% ownership interest in Team Snubbing are being reflected in income from equity investments. For Canadian well servicing assets, these were disposed of for cash consideration, leaving High Arctic with well servicing equipment and capability in PNG.

High Arctic continues to pursue discussions with active E&P companies in PNG towards deployment of Rig 102 after refurbishing the service rig package and actively bidding for projects.

Ancillary Services Segment – Continuing Operations

($ thousands, unless otherwise noted)	Three months ended June 30 2023	Three months ended June 30 2022	Six months ended June 30 2023	Six months ended June 30 2022
Revenue	**$ 3,797**	$ 3,567	**$ 6,292**	$ 7,717
Oilfield services expense	**1,111**	1,399	**1,904**	2,664
Oilfield services operating margin (1)	**$ 2,686**	**$ 2,168**	**$ 4,388**	**$ 5,053**
Operating margin (%)	***70.8%***	***60.7%***	***69.8%***	***65.5%***

(1) See "Non-IFRS Measures"

The Ancillary Services segment consists of High Arctic's oilfield rental equipment in Canada and PNG. Subsequent to the Q3-2022 Sale Transactions, rental equipment in Canada is primarily made up of oilfield pressure-control equipment.

Revenues from continuing operations increased 6% compared to Q2-2022 due to increased deployment in PNG. Rental equipment benefited from utilization associated with active Rig 103 drilling operations in PNG, overcoming lower revenue from Canada due to the Sale Transactions. Margins for the same period improved nearly 10% to 70.8% in the Quarter primarily as a result of PNG equipment mix and Canadian cost structure improvements following the Sales Transactions.

Revenues are lower by $1,425 for the six-month period ended June 30, 2023 when compared to the same period in 2022. This was primarily due to lower rental utilization achieved in Q1-2023 from PNG rentals and rentals in Canada following the sale of certain rental equipment associated with the Q3-2022 Well Servicing Transaction.

Nitrogen Assets – Discontinued Operations

On July 31, 2023, the Corporation closed the sale of all nitrogen business assets, which were located in Canada, previously included in its Ancillary Services segment. Accordingly, for the three and six-month periods presented in this MD&A, the operating results of the Corporation's nitrogen assets have been presented as discontinued operations.

The results of the operations of the disposed nitrogen assets are as follows:

($ thousands, unless otherwise noted)	Three months ended June 30 2023	Three months ended June 30 2022	Six months ended June 30 2023	Six months ended June 30 2022
Revenue	**$ 448**	$ 683	**$ 1,202**	$ 1,256
Expense				
Oilfield services	**484**	523	**1,059**	1,014
General and administration	**99**	39	**214**	69
Depreciation	**51**	151	**111**	301
Loss (gain) on sale of property and equipment	**-**	3	**(1)**	3
Net loss from discontinued operations	**$ (186)**	**$ (33)**	**$ (181)**	**$ (131)**

General and Administrative ("G&A")

($ thousands, unless otherwise noted)	Three months ended June 30 2023	Three months ended June 30 2022	Six months ended June 30 2023	Six months ended June 30 2022
G&A	**$ 2,053**	$ 2,797	**$ 4,005**	$ 5,194
% of revenue	***11.9%***	*11.2%*	***15.4%***	*9.8%*

G&A costs for Q2-2023 decreased by $744 when compared to Q2-2022 due primarily to the consolidation of administration and overhead roles and services following the Sale Transactions. Throughout 2023, the Corporation has focussed on reducing G&A costs, many of which are fixed in nature, to consider the reduced size and location of the remaining businesses. These efforts have led to the G&A reduction resulting in a comparable percentage of revenue at 11.9% versus 11.2% for the respective second quarters.

Depreciation

Depreciation expense on property and equipment and right-of-use assets totaled $3,151 in Q2-2023 compared to $5,847 during Q2-2022, a decline of $2,696 or 46%. This decline is a result of the Sales Transactions in 2022 that reduced the cost base of High Arctic's property and equipment and right-of-use assets which has reduced depreciation expense.

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 recorded a recovery of $34 in Q2-2023 compared to an expense of $213 in Q2-2022. This recovery was primarily due to the net settlement of DSUs upon the departure of a director in Quarter, and no new grants to management or directors in 2023.

Interest and Finance Expense

($ thousands)	Three months ended June 30 **2023**	2022	Six months ended June 30 **2023**	2022
Interest on long-term debt and standby fees	**$ 45**	$ 128	**$ 93**	$ 253
Finance expense – lease liabilities	**116**	90	**131**	178
Notes receivable accretion	**(47)**	-	**(91)**	-
Other	**16**	6	**37**	18
Total	**$ 130**	**$ 224**	**$ 170**	**$ 449**

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 re-paid in December 2022, resulting in a reduced mortgage liability and a commensurate lower interest expense in 2023. As at June 30, 2023, the mortgage principal balance was $4,115.

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 $47 and $91 recorded during three and six-month periods ending June 30, 2023 respectively. (2022, both periods - $nil).

Finance expense on lease liabilities associated with the time value of money for the three-month period ended June 30, 2023 was $116 (Q2-2022 - $90), as liability is initially recorded at its present value. Higher finance expense on lease liabilities is due to the addition of a lease related to PNG office and operational support base in the second quarter of 2023.

Interest income from cash invested in high interest accounts and Guaranteed Investment Certificates totalled $510 during Q2-2023 (Q2-2022 – Nil). As at June 30, 2023, the Corporation has invested $33,345 in GIC's earning 3.75% – 4.94% and $5,101 maintained in a high interest savings account with a current rate of 3.45%

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

Income Taxes

($ thousands, unless otherwise noted)	Three months ended June 30 **2023**	2022	Six months ended June 30 **2023**	2022
Income (loss) before income taxes	**$ 1,034**	$ (11,999)	**$ (69)**	$ (14,844)
Current income tax expense	**(532)**	(343)	**(499)**	(850)
Deferred income tax (expense) recovery	**(413)**	(7,921)	**27**	(7,240)
Total income tax	**$ (945)**	$ (8,264)	**$ (472)**	$ (8,090)
Effective tax rate	***91.4%***	*(69.1%)*	***(686%)***	*(54.5%)*

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 Gain (Loss)

The Corporation recorded a $1,049 foreign currency translation loss in other comprehensive loss for Q2-2023 (Q2-2022: $1,991 gain) associated with subsidiaries with functional currencies other than CAD. The loss incurred in Q2-2023 was primarily a result of the period end USD weakening against the CAD from USD/CAD 1.3533 to USD/CAD 1.3240 over the three months ended June 30, 2023.

Liquidity and Capital Resources

($ thousands)	Three months ended June 30 **2023**	**2022**	Six months ended June 30 **2023**	2022
Cash provided by (used in) continued operations:				
Operating activities	**$ 1,082**	$ 6,004	**$ 1,398**	$ 6,249
Investing activities	**(769)**	(1,519)	**26,999**	(1,925)
Financing activities	**(1,505)**	(788)	**(2,469)**	(1,309)
Effect of exchange rate changes on cash	**(5)**	(137)	**4**	(93)
Increase (decrease) in cash	**$ (1,197)**	**$ 3,560**	**$ 25,932**	**$ 2,922**

($ thousands, unless otherwise noted)	As at **June 30 2023**	December 31 2022
Current assets	**$ 74,284**	$ 69,278
Working capital (1)	**61,816**	59,461
Working capital ratio (1)	**5.9:1**	*7.1:1*
Cash and cash equivalents	**45,419**	19,559
Net cash (1)	**$ 41,304**	$ 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 Q2-2023, cash generated from operating activities from continuing operations was $1,082, down from the Q2-2022 cash generated from operating activities of $6,004. Funds flow from continuing operations totaled $3,914 in the Quarter (Q2-2022: $2,502), see "Non-IFRS Measures", and a $2,832 cash outflow from working capital changes (Q2-2022: $3,502 inflow).

In the six months ended June 30, 2023, cash generated from operating activities from continuing operations was $1,398, down from $6,249 in the corresponding period of 2022. Funds flow from continuing operations totaled $5,205 in the six months ended June 30, 2023, (YTD-2022: $4,693), see "Non-IFRS Measures", and a $3,807 cash outflow from working capital changes (YTD-2022: $1,556 inflow).

Investing Activities

During Q2-2023, the Corporation's cash used in investing activities from continuing operations was $769 (Q2-2022: $1,519) primarily as a result of lower capital expenditures totalling $702 in the Quarter when compared to the (Q2-2022: $1,710).

During the six months ended June 30, 2023, the Corporation's cash from investing activities from continuing operations was $26,970 ($1,925 used in the six months to June 30, 2022) reflecting the receipt of the final cash proceeds of $28,000 from the Well Servicing Transaction in Q1-2023 offset by lower capital expenditures totalling $1,098 (YTD-2022: $3,280) and $101 proceeds on disposal of property and equipment (YTD-2022: $1,107), and cash outflow of $33 relating to working capital balance changes for capital items (YTD-2022: $248).

Financing Activities

In Q2-2023, the Corporation's cash used in financing activities was $1,505 (Q2-2022: $788). During the Quarter, the Corporation paid $730 in dividends (Q2-2022 $487), $43 (Q2-2022: $81) towards principal payments on its mortgage financing (see "Mortgage Financing below"), $732 against lease liability payments (Q2-2022: $464) and cash inflow of $Nil relating to noncash working capital balance changes (Q2-2022: $244).

During the six months ended June 30, 2023, the Corporation's cash used in financing activities was $2,469 (YTD-2022: $1,309). During the period, the Corporation paid $1,460 in dividends (YTD-2022: $487), $99 (YTD-2022: $135) towards principal payments on its mortgage financing (see "Mortgage Financing below"), $885 against lease liability payments (YTD-2022: $931), $25 towards purchase of common shares for cancellation (YTD-2022: Nil) and cash inflow of $Nil relating to noncash working capital balance changes (YTD-2022: $244).

Mortgage Financing

	As at June 30, 2023	As at December 31, 2022
Current	**$ 176**	$ 186
Non-current	**3,939**	4,028
Total	**$ 4,115**	$ 4,214

The Corporation has mortgage financing secured by lands and buildings owned by High Arctic located within Alberta, Canada. The mortgage has a remaining term of 3.4 years with a fixed interest rate of 4.30% with payments occurring monthly.

Pursuant to the sale of the Canadian nitrogen pumping assets, the terms of Corporation's mortgage financing were amended. The amendments resulted in a one-time repayment of $500 of mortgage principal on July 28, 2023, the release of the sold assets from the general security of the mortgage and reduced reporting obligations.

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 $8,122 at June 30, 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 June 30, 2023, the Corporation has recorded a current obligation of $3,197 (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.

	Six-months ended June 30, 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 June 30, 2023, 217,000 stock options were outstanding at an average exercise price of $1.38 per share, as well as 900,187 units under the Corporation's Performance Share Unit Plan and 1,053,256 units under the Deferred Share Unit plan were outstanding.

No common shares have been issued from June 30, 2023 to the date of this MD&A.

Summary of Quarterly Results – Continuing Operations

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

	2023		**2022**				**2021**	
($ thousands, except per share)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Revenue [(3)]	**17,234**	8,771	12,323	11,899	25,023	28,123	22,793	17,867
Adjusted EBITDA from continuing operations [(1)(2)]	**4,413**	897	(848)	558	2,979	2,835	1,792	1,355
Net income (loss) from continuing operations [(2)]	**89**	(630)	(8,909)	(4,409)	(20,233)	(2,571)	(4,491)	(4,681)
Per share – basic and diluted	**0.00**	(0.01)	*(0.18)*	(0.09)	(0.42)	(0.05)	(0.09)	(0.10)
Cash flow from (used in) operating activities	**1,082**	316	541	930	6,001	247	(3,516)	680
Funds flow from (used in) continuing operations [(1)]	**3,914**	1,291	(7,995)	(661)	2,502	2,191	1,346	1,020

(1) See "Non-IFRS Measures"
(2) Adjusted EBITDA and Net loss includes the impact of wages subsidies (CEWS) and rent subsidies recorded during Q3-2021 and Q4-2021
(3) Revenue generated from the Canadian well services and snubbing assets sold in the Sale Transactions for Q3-2021: $13,099; Q4-2021: $13,637; Q1-2022: $15,060; Q2-2022: $16,079 and Q3-2022 $4,959. The Canadian snubbing assets were sold for an equity interest in the purchaser, Team Snubbing, on July 27, 2022. As a result, subsequent to this date, revenue and expenses in connection with High Arctic's 42% ownership interest in Team Snubbing are being reflected in income from equity investments.

Revenue increased in Q2-2023 relative to Q1-2023 as drilling Rig 103 drilling operations were ongoing for all of Q2-2023 and were only drilling for a short period of time during Q1-2023. Adjusted EBITDA from continuing operations and Net income (loss) from continuing operations both improved sequentially from Q4-2022 primarily as a result of the increased activity in PNG and the improvement in return metrics. The relatively large net (loss) from continuing operations incurred in Q4-2022 and Q2-2022 were primarily a result of the inventory adjustments of $3,900 relating to stock held in PNG and the $8,679 equipment impairment and $7,921 deferred income tax asset charges incurred respectively.

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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and LNG prices - Averages for each period:								
Brent Crude Oil (USD $/bbl)(1)	**80**	76	89	98	112	97	80	73
Japan LNG (USD $/mmbtu)(2)	**13.17**	18.87	20.67	20.60	17.07	16.57	13.47	11.68
USD/CAD exchange rate (1)	**1.35**	1.35	1.35	1.37	1.29	1.25	1.26	1.26

(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 stabilized in the high 70's to low 80's down from their 2022 highs. In the Quarter, Brent Crude Oil price average increased 5% to USD 80/bbl as demand continues to be supportive globally for oil and OPEC has continued with its plans for production cuts to maintain pricing for the commodity. Japanese LNG prices declined 30% to USD 13.17/mmbtu in the Quarter as seasonal demand pulled back and storage levels in Europe and Asia have improved.

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 weakening slightly against the CAD from an average of USD/CAD 1.3518 in Q1-2023 to USD/CAD 1.3475 in Q2-2023 which resulted in nominal foreign exchange losses on the Corporation's financial results from its PNG operations 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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Oil and natural gas prices -$ Averages for each period:								
West Texas Intermediate ("WTI") (USD $/bbl)(1)	**76**	76	83	92	108	94	77	71
West Canada Select ("WCS") (CAD $/bbl)(1)	**82**	75	77	94	122	101	79	72
Canadian Light Sweet Oil ("CLS") (CAD $/bbl)(1)	**97**	100	108	117	136	118	92	84
AECO (CAD $/MMbtu)(1)	**2.43**	3.23	5.24	4.46	7.26	4.77	4.74	3.75

(1) Source: Sproule

In Q2-2023, WTI, WCS, CLS prices were generally stable throughout the quarter. Consistent with global liquids pricing product demand generally firmed up as supply levels stayed relatively constant. Recessionary fears in North America that were present at the end of Q1-2023 and early in Q2-2023 abated during the quarter which also supported the energy commodity complex.

In Canada, industry activity remained steady throughout the Quarter and was relatively consistent when compared to Q2-2022. North American commodity prices remain in a profitable range assisted by the favourable USD/CAD exchange rate, the aforementioned strong demand outlook and a political focus attempting to balance energy transition and energy security. All of these factors are favourable to the energy industry and provide impetus to justify upstream capital investment.

Financial Risk Management

The Corporation's financial instruments have the following foreign exchange exposure as at June 30, 2023:

($ thousands)	USD (1)	PGK (2)	Australian Dollars ("AUD") (3)
Cash	$ 4,141	3,108	$ 434
Accounts receivable	10,927	7,128	-
Accounts payable and accrued liabilities	(6,506)	(665)	(202)
Total – Canadian Dollars	**$ 8,562**	**9,571**	**$ 232**

(1) As of June 30, 2023, one USD was equivalent to 1.3240 CAD.
(2) As at June 30, 2023, one PGK was equivalent to 0.3762 CAD.
(3) As at June 30, 2023, one AUD was equivalent to 0.8814 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 range of customers comprised of small independent, intermediate and large multinational oil and gas producers in North America and predominantly large global customers in PNG.

The Corporation provided services to two large multinational customers who individually accounted for greater than 10% of its consolidated revenues during the three-months ended June 30, 2023 with total sales of $12,791 and $1,170 respectively (2022: four customers with revenues of $6,007, $3,886, $2,982 and $2,925 respectively).

The Corporation provided services to two large multinational customers who individually accounted for greater than 10% of its consolidated revenues during the six-months ended June 30, 2023 with total sales of $17,165 and $2,495 respectively (2022: four customers with revenues of $10,582, $8,535, 5,908 and $5,615 respectively).

As at June 30, 2023, two customers represented a total of $13,203 or 73% of outstanding accounts receivable (December 31, 2022 - three 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 June 30, 2023**	As at December 31, 2022
Less than 31 days	**$ 7,692**	$ 3,049
31 to 60 days	**4,969**	2,636
61 to 90 days	**2,913**	2,173
Greater than 90 days	**2,637**	3,279
Provision for expected credit losses	**(31)**	(45)
Total	**$ 18,180**	**$ 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 June 30, 2023, High Arctic determined that no indicators of impairment existed within the Corporation's CGUs.

Pursuant to both the Well Servicing Transaction and the Snubbing Transaction in 2022 High Arctic sold specific assets associated with its well servicing and snubbing services operations in Canada. The Corporation applied judgement to determine whether a component of the Corporation that either has been disposed of, or is classified as held for sale, met the criteria of a discontinued operation. The key area that involves management judgement in this determination is whether the component represented a separate major line of business.

The Corporation concluded that the disposal of well servicing assets and snubbing assets did not meet the criteria of discontinued operations because they did not represent the disposal of a separate major line of business. This is because the Corporation continues to conduct activities in its Production Services line of business through its investments in Team Snubbing and the Seh' Chene Partnership, and its well servicing assets in PNG. The Corporation also continues to own snubbing equipment and to assess opportunities in the United States.

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

During the period from August 31, 2023 to October 26, 2023, an evaluation of the effectiveness of High Arctic's ICFR 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"). The Corporation identified a material weakness in the ICFR as it related to insufficient management review of complex accounting and financial reporting matters, including related disclosures.

As a result of the control weakness, incorrect amounts were reported in its operating segments note disclosure under IFRS 8. The Corporation restated its consolidated financial statements for the year ended December 31, 2022, and its Q4-2022 MD&A and its Q2-2023 MD&A. Based on this evaluation, the CEO and CFO concluded that as at December 31, 2022, and June 30, 2023, High Arctic's ICFR was not effective due to the material weakness noted above. The Corporation identified the weakness and remediated the deficiency by adding an additional level of review for all of its consolidated financial statement note and MD&A disclosures.

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 June 30, 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 Amended and Restated Annual Information Form dated November 6, 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.sedarplus.ca.

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 AIF, which are specifically incorporated by reference herein. The AIF is available on SEDAR at www.sedarplus.ca, 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 from continuing operations before interest, taxes, depreciation, and amortization ("EBITDA from continuing operations")

EBITDA from continuing 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. EBITDA from continuing operations 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 from continuing operations 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 from continuing operations is not intended to represent or be construed as an alternative to net earnings (loss) calculated in accordance with IFRS. Note that EBITDA from continuing operations is inclusive of government wage subsidies and rental subsidies recorded. Refer to table in Adjusted EBITDA from continuing operations below that provides a reconciliation of net earnings (loss), as disclosed in the consolidated statements of loss and comprehensive loss, to EBITDA from continuing operations.

Adjusted EBITDA from continuing operations

Adjusted EBITDA from continuing 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. Adjusted EBITDA from continuing operations is defined based on EBITDA from continuing operations (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 from continuing operations is inclusive of the CEWS and rental subsidy programs which ended in October 2022.

Management believes the addback for these items provides a more comparable measure of the Corporation's operational financial performance between periods. Adjusted EBITDA from continuing operations 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 from continuing operations, as disclosed in the consolidated statements of loss and comprehensive loss, to EBITDA from continuing operations and Adjusted EBITDA from continuing operations for the three and six-months ended June 30, 2023 and 2022:

($ thousands)	**Three months ended June 30 2023**	2022	**Six months ended June 30 2023**	2022
Net income (loss) from continuing operations	**$ 89**	$ (20,230)	**$ (541)**	$ (22,803)
Add:				
Interest income	**(510)**	-	**(927)**	-
Finance expense	**130**	224	**170**	449
Income tax	**945**	8,264	**472**	8,090
Depreciation	**3,151**	5,847	**5,883**	11,261
EBITDA from continuing operations	**3,805**	(5,895)	**5,057**	(3,003)
Adjustments to EBITDA:				
Share-based compensation	**(34)**	213	**152**	351
Investment income	**430**	-	**57**	-
Impairment	**-**	8,679	**-**	8,679
Gain on sale of property and equipment	**(13)**	(62)	**(143)**	(139)
Foreign exchange loss	**225**	79	**231**	51
Adjusted EBITDA from continuing operations	**$ 4,413**	**$ 3,014**	**$ 5,354**	**$ 5,939**

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 and six-months ended June 30, 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 June 30		**Six months ended June 30**	
($ thousands, unless otherwise noted)	**2023**	2022	**2023**	2022
Revenue from continuing operations	**$ 17,234**	$ 25,023	**$ 26,005**	$ 53,146
Less:				
Oilfield services expense	**10,768**	19,247	**16,646**	42,141
Oilfield services operating margin	**$ 6,466**	**$ 5,776**	**$ 9,359**	**$ 11,005**
Oilfield services operating margin %	***37.5%***	***23.1%***	***36.0%***	***20.7%***

Operating income (loss) from continuing operations

Operating income (loss) from continuing 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. Operating income (loss) from continuing operations 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 income (loss) from continuing operations is not intended to represent revenue, net earnings (loss), or other measures of financial performance calculated in accordance with IFRS. Operating income (loss) from continuing operations is calculated as revenue less oilfield services expense, general and administrative expense, depreciation, and share-based compensation. Operating income (loss) from continuing operations 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 income (loss) and comprehensive income (loss) to operating income (loss) from continuing operations for the three and six-months ended June 30, 2023 and 2022:

($ thousands)	Three-months ended June 30 2023	2022	Six months ended June 30 2023	2022
Revenue from continuing operations	**$ 17,234**	$ 25,023	**$ 26,005**	$ 53,146
Less:				
Oilfield services expense	**10,768**	19,247	**16,646**	42,141
General and administrative expense	**2,053**	2,797	**4,005**	5,194
Depreciation	**3,151**	5,847	**5,883**	11,261
Share-based compensation	**(34)**	213	**152**	351
Operating income (loss) from continuing operations	**$ 1,296**	**$ (3,081)**	**$ (681)**	**$ (5,801)**

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 continuing operations

Funds flow from continuing 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 continuing operations is defined as net cash generated (used in) from continuing 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 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) continuing operations for the three and six-months ended June 30, 2023 and 2022:

($ thousands)	Three-months ended June 30, 2023	June 30, 2022	Six-months ended June 30, 2023	June 30, 2022
Net cash generated from operating activities	**$ 1,082**	$ 6,004	**$ 1,398**	$ 6,249
Less:				
Changes in non-cash working capital balances - operating	**(2,832)**	3,502	**(3,807)**	1,556
Funds flow from continuing operations	**$ 3,914**	**$ 2,502**	**$ 5,205**	**$ 4,693**

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, 2023 and December 31, 2022:

	As at	
($ thousands)	**June 30 2023**	December 31, 2022
Current assets	**$ 74,284**	$ 69,278
Less:		
Current liabilities	**(12,468)**	(9,817)
Working capital	**$ 61,816**	**$ 59,461**
Working capital ratio	**5.9:1**	***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)	**June 30 2023**	December 31, 2022
Cash and cash equivalents	**$ 45,419**	$ 19,559
Less:		
Long-term debt [1]	**(4,115)**	(4,214)
Net cash	**$ 41,304**	**$ 15,345**

[1] Long-term debt includes current portion of $176 (Q4-2022: $186) and non-current portion of $3,939 (Q4-2022: $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, the outlook for energy services; continued impact of Russia-Ukraine conflict; opportunities for growth and transactions that 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 return of capital to the Corporation’s shareholders and reorganization including divestment of the PNG Business to shareholders, return of a capital payment, purchase rights distribution, unlock the value of the different segments of High Arctic’s business, obtaining applicable regulatory and shareholder approvals; the performance of the Corporation’s investment in Team Snubbing; upswing in PNG energy sector activity and opportunities for growth; the final investment decision on the Papua-LNG project and development of the P’nyang gas field; expectations of Rig 103 to operate consistently through the term of its contract; deploying idle heli-portable drilling rigs 115 and 116; future work with other exploration companies in PNG; scaling the Canadian business; executing on one or more corporate transactions; 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.sedarplus.ca.

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 of America
USD	- United States dollars
WCS	- West Canada Select
WCSB	- Western Canadian Sedimentary Basin
WTI	- West Texas Intermediate
YTD	- Year to date